Labor unions - Business enterprises

Report of the Meeting of Latin American and Caribbean Workers' Banks

Washington, D.C.
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REPORT OF THE MEETING

OF

LATIN AMERICAN AND CARIBBEAN

WORKERS' BANKS

AND

PUBLIC AND PRIVATE FINANCIAL INSTITUTIONS

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INTRODUCTION

The American Institute for Free Labor Development (AIFLD) is an autonomous nonprofit organization founded in 1962 by the AFL-CIO that supports the development of the democratic trade union movement in Latin America and the Caribbean by providing technical aid and limited financial assistance. Our board of directors is composed of labor and business leaders from the United States and prominent labor leaders from Latin America and the Caribbean. AIFLD's objectives are:

- to strengthen democratic trade unionism;
- to create conditions that will allow unions to become self-reliant;
- to make trade unionism a force for democratic development and social change.

The institute's general program includes union leadership training, special labor education, community development, campesino services and social projects. A large part of the activities are carried out under contract to the Agency for International Development.

In 1977 AIFLD set up a new program within its social projects department to expand workers' access to nonusurious credit. To achieve this objective the institute has increasingly come into contact with the workers' banks of the Latin American and Caribbean countries. These banks are fairly new institutions, the oldest having been established in 1962. Their relative youth, however, does not mean that they are economically insignificant. At a 1977 Organization of American States' technical seminar of these banks it was reported that their assets totaled more than 700 million dollars and this was prior to the establishment of the Banco Obrero in Mexico.

Workers' banks, it should be pointed out, do not serve only workers, nor are they part of the welfare system of their countries. Rather, they are regular banks operating under the banking laws and regulations of their countries. Ideally, they should all operate well in a variety of fields. The most successful workers' banks have extensive commercial and industrial operations, both domestic and international. In these banks one usually finds that although the number of personal loans is far larger than the number of commercial loans, the amount in the commercial loan portfolio far exceeds the amount in the personal loan portfolio.

The workers' banks provide a service for and an access to an economic group that has repeatedly shown a dedication to hard work and a growing understanding of the use of credit. It is a group that in many countries has had only limited access to banking services. As an indication of the size of this group, it is estimated that in 1975 over 8,000,000 people in the ten workers' bank countries were represented by unions. Despite this enormous clientele and despite their steady growth, the workers' banks are still relatively unknown, even within their own countries.

The inadequate understanding by other private and public financial institutions of the workers' banks limits their ability to raise funds and thus restricts their ability to help improve the economic wellbeing of the workers. Because we believe the workers have as much right to reasonably priced banking services as do their more well-to-do compatriots, we decided to organize a meeting of workers' banks and public and private financial institutions. This meeting was held in Washington, D.C., October 10 through 12 in the Andres Bello Auditorium of the Inter-American Development Bank. The objectives of the meeting were to:

- bring about a better understanding on the part of potential funding sources of the structure, purposes and activities of the workers' banks in Latin America and the Caribbean;

- expand the workers' banks' knowledge of international financial resources and increase their understanding of the requirements and operating methods of some of these financial institutions;

- inform the commercial and investment banks attending the meeting of viable investment opportunities and provide an opportunity for discussion of specific projects.

To achieve these objectives, a three-part program was designed. The first part focused on the workers' banks' philosophy and operations, the second on their involvement in housing, and the third on public and private financial institutions. This report includes all the oral presentations. Unfortunately, limitations of space have prevented us from reproducing all the documents that were submitted to the meeting.

The Institute would like to express its gratitude to the Inter-American Development Bank for making its meeting facilities available to us, and to the president of the bank, Antonio

Ortiz Mena, for his excellent opening address. We would also like to thank the Organization of American States for its participation in the meeting and the help it provided us in obtaining translating equipment.

William C. Doherty Jr.
Executive Director
American Institute for
Free Labor Development

OPENING PRESENTATION

Licenciado Antonio Ortiz Mena

Mr. President, my esteemed and good friend, William Doherty, ladies and gentlemen:

We are very pleased to sponsor this Seminar because we are aware of the importance which the workers' movement gives to the organization of workers banks in all our countries, and it is precisely the importance of this movement which leads us to associate the Inter-American Development Bank with this event.

First of all, I would like to welcome you all most cordially because this is the home of all the Latin Americans in Washington. At present the bank has 41 members and will soon have 42. The bank began its operations 18 years ago and at that time had 19 Latin American members in addition to the United States. With the admission of Surinam, we will soon have 42 member countries. In 1960 the bank had only one industrialized country, namely the United States, which transferred funds throughout the region. But now we have 17 industrialized countries whose resources contribute to the development of Latin America. Thus we have made it possible for the region to benefit by gaining access in a competitive fashion to those countries which transfer funds, since those countries which seek credit can choose the goods and services most appropriate to the projects they are going to carry out; similarly, they can choose the technology most suited to the development of the country in question. This competition between the industrialized countries has been enormously beneficial. We should add that, just as 20 years ago it was practically impossible for the countries of Latin America to compete for goods and services in international biddings the presence of many of these Latin American countries has now become fact. Argentina, Brazil, Mexico, Colombia, Venezuela and many other countries participate constantly and quite often are selected. We are all pleased to see that in many competitions the competing countries ask themselves "Which is the most advantageous offer?" - and frequently the offers coming from Brazil, Mexico or Argentina are chosen.

In Latin America we have been fostering the development of some of the largest projects in the world; right now we are

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Licenciado Antonio Ortiz Mena, former Minister of Finance of Mexico, is President of the Inter-American Development Bank.

negotiating credit for one of the largest hydroelectric plants in the world. This is the Yaciretá Project, which is on the Paraguayan border and which uses the waters of the Paraná river. As a binational project, it will be directed by an international body comprised of Paraguay and Argentina.

As you know, we have three types of funds. Capital resources raised basically from bonds placed in international markets; these resources are transferred to the borrowing countries on terms which reflect those market conditions. By averaging costs, we are able, in these times of generally high interest, to continue offering funds at 7.5% interest over 20 or 25 years, depending on the project.

We also have the Fund for Special Operations which is composed of budgetary contributions from our member countries. We transfer these funds principally to the lesser developed countries and those countries with appropriate markets. The terms of the loans are 40 years with grace periods of up to 10 years at a symbolic interest rate of less than 1% during the 10 year grace period and 2% during the following 30 years. The projects are thus able to generate enough funds to finance themselves since, during the ten year period, the project will have begun operations and started to produce funds to cover the debt. In the case of social projects which do not have an immediate return, spreading the cost over 40 years still makes it possible for the country to absorb the cost and to begin to produce almost immediate results. If one considers, for example, health or education projects, one can conclude that the benefit to society of healthier or better educated people has had an indirect effect which can be balanced against the repayment of these credits.

In addition, something even more important has been achieved: the credits which we provide serve basically to give the country the foreign exchange funds needed to cover what is imported for the project in question. Especially in the lesser developed countries we also finance a very important part of the local currency expenditures; thus, there are projects for which we end up financing as much as 90% of the cost in foreign exchange. But in all the projects, the real impact is the mobilization of domestic resources to meet the needs of the project. This experience is an important factor in improving the region's ability to mobilize resources.

With a portfolio of 12 billion dollars we have succeeded in mobilizing three times as much in domestic resources; that is, by providing 12 billion dollars we have started and are financing projects worth 48 billion dollars. This means that the efforts of the Latin American people have permitted the financing of three times the value of the sums provided by us. Our funds have acted as a catalyst and have released all those internal resources which make it possible for national efforts to be channeled towards far-reaching projects. One must consider the significance for our region of the fact that through our Institution there are 48 billion dollars available to carry out projects.

So then, our Institution wants to take advantage of the existing capacity of Latin America to channel our resources in such a way that they will be used by the sectors with the least income or by those sectors in the region with the most need. To this end we have developed the concept of global credits. It is impossible for an institution such as ours to deal directly with the small borrower. Thus, what we do is indicate the general conditions according to which loans are to be made. We grant a credit to a national institution, usually the Development Bank or the Central Bank of the country, through which funds are channelled to the private banking community which then places the funds at the disposal of the individual credit user. In this way we have been able to reach farmers, very small businessmen, worker and peasant organizations, the cooperative movement, etc. In other words, we have actually reached the masses who most need credit at favorable terms.

I believe that if there is a mechanism which might allow us to reach the masses of Latin America, that mechanism is precisely the workers' banks. The perspectives that we have are enormously important as regards urban development and workers' housing. We could extend global credit for joint urban development investment programs and could help mobilize domestic resources for housing construction for workers.

I feel that it is important here to identify the centers of development so that housing areas for workers can be located near industrial sites and thus be of enormous benefit to the worker and his family. First, we avoid the expediture of time and money for transportation; then working with the companies, training centers can be established for the workers, and most especially for those workers with no previous training, so that they can use their free time to better their skills and become skilled workers. The financing of workers' cooperative organizations - consumer cooperatives, producer cooperatives, and training programs for the workers' families in family income management - should be a reality, as well as the development of handicraft organizations which provide opportunities to augment family income.

I believe that there is one way in which workers' banks can play an essential role. In some countries, principally in Europe, workers are already participating within management boards of companies, sharing in and becoming responsible for the effective management of the business. In Latin America this movement is just beginning, but I believe that within the context of worker-management bargaining it is a goal worth seeking. I also believe that in that situation one of the most valuable tools available to the workers is the advice of qualified institutions such as the banks. With this advice, workers can begin to participate effectively in the management of businesses to whose success they contribute with their labor.

Hopefully, the workers' banks will more and more become the type of technical organizations which can carry out these functions. To help them towards this goal, the Inter-American Bank offers something else which can be of great value; the mobilization of technical assistance for institutional development and the training of personnel; this could be handled through the small or medium-size companies which we finance or through other companies in the country where these training courses can be given with technical cooperation funding from our institution.

I hope that you will analyze all these problems and that we will find a way in which the Inter-American Bank and the banks over which you preside can work more closely together to bring the benefits of the financing and technical cooperation which we can offer to the workers and their families. I am sure that our Institution will be able to support you in directing the policies of Latin American workers towards the greater benefit of all their members which in turn will result in a direct benefit to their countries.

I believe that we have something to learn if we observe what happens in this country and recognize the importance of the organized labor movement in the United States. As you know the Inter-American Bank needs contributions from the different countries. These contributions come to us through the respective members' legislatures. This is the case in most of our 42 member countries so that the growth of our resources is a result of the support of the national Congresses.

In the Congress of the United States, the bank has always received the decided and significant support of the organized labor movement. President Meany has addressed himself to the many congressmen with working-class backgrounds, asking their support for our Institution. To a great extent this has meant a current of opinion within the Congress favorable to the contribution of funds to our bank. I believe that something similar should happen in Latin America; the organized worker should participate more and more in the political process in our countries, because it is precisely the workers' ideas and knowledge which can produce the social advances that we need so much in our region.

For these reasons, you who represent the efforts of workers are welcomed in this Institution as part of the banking family, and I wish to express to you our desire to work ever more closely with you and to implement programs through which the Inter-American Development Bank and the workers' banks can cooperate in the betterment of the Latin American working class.

Many thanks.

THE SUCCESSFUL WORKERS' BANK

Rolando del Cid

I would like to describe what workers' banks are to the international financing institutions and to other private banking institutions, as we expect much from them. I wish to review the origin, the philosophy, the development and the achievements of workers' banks in Latin America and the Caribbean.

Workers' banks have been defined incorrectly - and rather irresponsibly - as institutions that were the product of the influence the United States had over the economomy of Latin America and the Caribbean. This was stated during the 1960's when President Kennedy conceived the Alliance for Progress. It was said that these institutions were mere paliatives for the miseries the working masses had to bear in the Latin American countries. This was incorrect as well as untrue.

Any labor leader from Latin America or any other part of the world knows that the labor movement has had its own financial institutions since 1892. If we look at the history of the German labor movement, we find in it the initial concepts of financial institutions for workers. Workers' banks were also established in the United States between 1920 and 1930. Workers' banks are, fundamentally, ideas that were born within the labor movement and transferred through the history of the labor movement.

The concept, philosophy and achievements of these institutions are set forth in two documents issued at the Second and Third Conferences of Ministers of Labor. During the Conference of Ministers of Labor, held in Bogotá, Colombia, 1963, the Declaration of Cundinamarca was drafted. In point 35 there is a clear statement of the desire of the workers of this continent to create institutions dedicated to resolving the financial needs of workers and their families and to creating enterprises to encourage employment. That declaration, the work of the labor movement of Latin America, was supported by the North American labor movement. Labor representatives of both parts of our continent met at this meeting, and the ministers of labor agreed to assist in the organization of worker' banks. Later this declaration was ratified by the

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Third Conference of Labor Ministers. At that time the labor delegations, headed by Argentinian leaders, were the most enthusiastic in supporting a recommendation for inclusion in the Caraballeda plan. The recommendation, not common in this type of interamerican document, provided that Latin American governments would create financial organizations of and for the workers one year after the date of the conference. It was thus that workers' banks began to appear in the region. Guatemala was a pioneer, followed by Venezuela and Honduras, and later, step by step, new banks were established in the continent and in the Caribbean. (Puerto Rico had a workers' saving and loan bank established in 1962 even before the conference of labor ministers.) We find, therefore, throughout America eight banking institutions that are similar in their basic legal structures, three that follow a different pattern and two that are even further removed in their conception from what we have traditionally called workers' banks. Guatemala, Venezuela, Honduras, the Dominican Republic, Jamaica, Trinidad and Tobago, Puerto Rico and Paraguay have established workers banks by national legislation drafted with the purpose of granting certain protective mechanisms to these institutions, allowing them to develop and to operate with flexibility. For the repayment of loans to workers, almost all of these eight banks are able to deduct from payrolls, and the employer, by law, must remit to the bank the monies collected. This is the basic protection that the governments gave the workers' banks, in addition to contributing seed capital that could not have been raised otherwise without violating legal provisions in these countries.

The three banks in Argentina, Colombia and Mexico were established with a different legal structure, as they are under the banking laws of these countries. They were created not by a special law but by public decrees that subscribe capital shares and include conditions that must be followed by any corporation within the private banking system of the countries. Costa Rica has yet another concept for its workers' bank, the Banco Popular y de Desarrollo Comunal (Popular Bank for Community Development). This arrangement is rather special and will be discussed later. The Banco Popular of Nicaragua is also a unique case; owned by the government it makes personal loans to workers and helps finance cottage industries and small businesses.

The central philosophy followed initially by workers' banks was to grant personal loans so that workers could meet their most urgent family financial needs. Some banks also included in their charters the concept of financing businesses or enterprises that create new jobs. Even though these banks have engaged mainly in these two activities, they have slowly changed their operating mechanisms because it became clear that fulfilling the function of personal loans alone would keep these banks merely as savings and loan unions, without the possibility of expanding and developing. In other words, if workers banks only serve family needs by granting personal loans, they would be nothing more than credit unions.

We thus devoted our efforts to developing our banking activities to their full dimension, encompassing the total scope of possibilities offered by commercial banking with development ends. The majority of the banks have slowly changed their image and their structures to meet the needs and the challenge of a professionally managed banking system. We now find that workers' banks are recognized by international private banks for the importance, seriousness, responsibility, financial soundness and dynamic management that they have developed over a period of time. One bank, perhaps the largest in the United States, or the world - the Bank of America, of San Francisco - has been the pioneer in granting financial assistance to workers' banks.

Almost all workers banks are in one way or another operating with lines of credit from the Bank of America and others. If an institution of this magnitude has confidence in workers' banks, its example will be followed by other institutions of equal or less importance. Currently there are workers' banks on the American continent and in the Caribbean that enjoy the confidence of 13 or more of the most important international banking institutions.

Through these relationships workers banks have become known throughout the world without the question of ideology assuming any great importance in their development. Letters of credit issued by workers' banks circulate throughout the world and are accepted with confidence by foreign banks and by exporters of goods throughout the world. Lines of credit for millions of dollars are used so efficiently, with such promptness in their payments and with such reliability that other banks are agreable to increasing these lines of credit.

Honduras' experience is extraordinary in this respect. Our bank now has lines of credit for more than $8,000,000 dollars which are actively used. The workers' bank in Venezuela enjoys similar banking facilities. For many years the workers' banks have been meeting to exchange ideas, to learn from each other and to discover what path we are following as well as how each of us has developed. On these occasions we have received announcements from international institutions on their willingness to offer financial and technical asssistance to accelerate our development. Hence we will mention here what the Inter-American Development Bank on many occasions has offered. This includes global lines of credit to workers' banks so that they can assist the economic and social development of their respective countries. Unfortunately, these offers have been only that: offers. Maybe we, workers' banks have not been insistent enough for the IDB to finally decide to grant these lines of credit.

I believe that the greatest difficulty is defining what comes first, the chicken or the egg. In other words, to be able to grant a global line of credit, or at least to initiate the necessary process, the interested institution must present a diagnosis of the needs of the country or the areas in which the bank could operate with its domestic financing. It is only after the presentation of such a diagnosis that nonreimbursable assistance can be obtained from the IDB for financing feasibility studies. Nevertheless, we find that workers' banks still do not have the mechanisms for the preparation of such studies. Moreover, such studies do not often coincide with the ideas or assumptions of national planning councils, which, concerned with large infrastructure issues, often neglect the microlevel economic questions and even more those issues of interest to the working class. We must, therefore, begin to discuss with the IDB the possibilities for this organization to assist in the formulation of these studies, so that we can be clear about the direction to follow with respect to the IDB.

The IBRD, or World Bank, has taken, I believe, a different direction. At least for Honduras, it has already prepared an analysis of the fields in which the workers' banks and other development institutions should operate. Specifically, to provide financial assistance to small- and medium-sized industry, it has designed a program that will initially inject $15,000,000 into the economy of our country, with minimum loans of $75,000 and maximum loans of $500,000.

The officials of the World Bank who visited Honduras and researched the background and development of the Workers' Bank of Honduras concluded that this organization was the most adequate for channeling financial assistance to small- and medium-sized industry. The workers' bank will, of course, have to adjust its structure to this new responsibility and prepare the necessary management tools for this type of loan and expand what we already have. It is clear that workers' banks have grown up. They are no longer the newborn babes of the 60s. Today they are sound and well-known institutions with highly technical management able to administer operations of the utmost significance in the economic and social development of their countries.

It is a fact that we are not development banks in the true sense of the word. We are basically commercial banks that are capitalized and nourished with resources provided by the public. We therefore have a responsibility to these shareholders and must be careful in the placement of resources, though obviously without overcommercializing our banking activities to the detriment of activities in the economic and social development sphere.

The Workers' Bank of Honduras is beginning to enter fields where traditional commercial banks have not. For example, we have financed a transportation cooperative with amounts that are substantial in the economic context of our country. Recently, our bank contributed to the purchase of 50 passenger buses for the capital city - an investment of a million dollars in a joint program with the central bank and at interest rates and amortization terms that are very favorable for this kind of organization. We have taken this approach to begin a fruitful relationship with our national cooperative movement. The workers' bank had previously been unable to establish a common interest and to develop joint activities with the cooperative movement. We always found resistance, especially from savings and loan cooperatives, which saw in the workers' bank, a competitor for workers' savings. Though not totally resolved, this question is no longer relevant because the field in which the workers' bank can help the cooperatives is not in financial assistance for family consumer needs, but rather in assistance to production and service cooperatives. This is where our bank believes that it can play a positive role in the social and economic development of the country.

Our positive experience is being repeated in many other countries. Workers' banks are no longer small credit unions but have become banks that can manage all banking activities soundly. However, one point must be made clear to the representatives of international institutions and international commercial banks. That is the erroneous idea that these banks are highly influenced by their national government. I believe that though it is not harmful for the banks to have an element of government influence, that influence must not restrict the decisions and aspirations of the labor movement, which in the final analysis manages these institutions. We know that seed capital was contributed by the governments in many countries, but in amounts that today do not have a great significance in guiding and controlling these banks. The majority of the banks have capitalized at such an accelerated rate that government influence is marginal or almost nonexistent. This has enabled the banks to finance business, subject to the economic plan of the country, but not subject to influences that could be in any way harmful for their development. The banks are administered in accordance with the interests of the institution and the social sector that they represent. We have built a system of banks that even if they do not follow the traditional pattern of commercial banking as it is known in the United States and the rest of the American continent, do have all the ingredients and all the tools to work in this field, as has been demonstrated by 12 years of activity.

We now seek new dimensions, and we gladly came to this gathering to present to the international agencies the extent of our development. Some of those present already know workers' banks by reference, or because they have already had concrete experiences with joint financial operations. Others have come to find out what these institutions are, how they work and what they hope to accomplish. In this brief summary I have tried to portray the idea that workers' banks are entities that work actively in the field of commercial banking but from a social development viewpoint. This may be what distinguishes us and gives us a different image in the banking community. We express our work in a very personal equation: The workers' bank, a philosophy plus a technique, equals efficiency and success. That is what keeps us in the market and has enabled these banks to survive for more than a decade.

Finally, we should discuss how to attract resources through capital and deposits. Workers' banks in almost all the countries operate the same way as other commercial banks: by obtaining resources and placing them at the same rates of interest as the rest of the private banking sector. It was once very difficult for the banks to attract resources. It has been only through a slow process of capitalization that these banks have been able to go to the money markets and that the cloud of distrust has dissipated. We have been able to attract the resources of the private sector and some government-sponsored institutions that work in the labor field. Capitalization, which was mandated by legislation in some banks and voluntary in other cases because of the credit needs of the workers, has been the reason for confidence. If we read the annual reports of workers' banks we see that they all have solid, substantial and stable capital, which allows them to capture resources from local sources and reach out to the international markets.

Some have spoken of a state obligation to establish legal and mandatory mechanisms within the workers' banks so that they can gain access to the funds of government-sponsored institutions. I believe that any activity generated by mandatory action, even if it is legally and philosophically valid, can be a double-edged sword. I say this because there are those of us who believe that the funds of social security agencies, pension plans and trade and professional associations should be part of the resources of workers' banks. But if this happens and the banks are not prepared to absorb and utilize this enormous amount of resources efficiently, we could face serious problems in our development. Without dismissing the possibility that the government take some action, I personally favor the idea that the banks go to the money markets and compete under conditions equal to those of local banks. Our bank is an example of what can be done. In the last three years, the Workers' Bank of Honduras has attracted substantial resources from organizations and autonomous state agencies that have deposited their money in our bank because of its trustworthiness and development.

To conclude, workers' banks are institutions that contribute positively to economic and social development. Even when the banks grant loans that are purely commercial in nature, as long as the businesses in some manner generate or maintain employment opportunities for our workers, they are performing a worthy task in their country's social interest. And to the extent that their growth reaches levels more adequate to their needs the workers' banks will lead in the progress of their countries.

INTERNAL FINANCIAL DEVELOPMENT AND EXTERNAL RESOURCE MOBILIZATION

Jesús Cárdenas de la Ossa

The Colombian Workers' Bank is perhaps one of the youngest workers' banks of the continent. Last August we celebrated our fourth anniversary, and during these four years we have had a record growth compared with the commercial banks of Colombia. We began with a capital of approximately 12,000,000 Colombian pesos, and we soon reached 40,000,000, then 80,000,000. Today we have a capital of 150,000,000 pesos. Our growth rate has been staggering. I would like to tell you how we were able to accomplish this.

The Workers' Bank is a result of the efforts made by the Colombian federations of labor, especially the Workers' Union of Colombia (UTC), which is presided over by Tulio Cuevas. The UTC was committed to founding a workers' bank long before the Conference of Labor Ministers was held in Bogota under the auspices of the OAS. The final result of that conference was the Charter of Cundinamarca. Before this, the UTC had been working to try to establish a bank. With the help of the unions, a type of central federation of cooperatives was organized. The UTC first founded an organization called COOPDESARROLLO, a second-level cooperative organization that took the first steps in trying to channel workers' resources to obtain working capital to promote marketing and the organization of production cooperatives.

During President Kennedy's administration and the Alliance for Progress, the UTC started to look for institutions that could provide resources to help establish a workers' bank. It knocked on the doors of several organizations and finally obtained the cooperation of the Inter-American Foundation, which provided seed capital with a donation of US$500,000.

With these funds, plus the resources of the cooperative and some funds from the confederation and the unions, the workers' bank was founded. The only participation (if it can be referred to as such) of the Colombian government was the issuance of the operating license. There were no special laws establishing the bank, nor did it receive a single cent from the government or any governmental organization. Of the capital of 150,000,000 pesos, 90% was provided by

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Jesús Cárdenas de la Ossa is the President of the Banco de los Trabajadores of Colombia.

cooperatives, unions, or workers' mutual funds. The remaining 10% came from individuals, from what we refer to as the social sector - individual workers and small shareholders.

An important aspect of the establishment of the Colombian Workers' Bank is that though the cooperatives were initially opposed to the bank, they soon understood the need for a financing institution and the advantages of having one. They have since been lending their assistance, together with the unions and the confederation, the largest group of shareholders. We have succeeded in making the cooperatives aware of the importance of participating in the bank. This has given us great stability; we now have 240 organizations from among the unions, mutual funds and cooperatives, contributing 90% of the capital.

At the last general meeting, the shareholders decided to increase the bank's capital to expand coverage of unions and cooperatives. Of the increase in capital, 40%, or 70,000,000 pesos ($2,000,000 U.S.) must come from new organizations wishing to become members of the bank. And, by attracting as members the majority of cooperative and union organizations, the bank builds a firm foundation and is able to say that it serves, if not 100% of the unions and cooperatives, at least a significant portion of them.

This bank has had one of the most rapid growth rates in the banking sector in the country. We now have all the lines of credit that commercial banks in Colombia have, ranging from personal credit to agricultural financing, called the Ley Quinta and the Agricultural Financing Fund, which are development credits with terms of three to six years and interest rates fluctuating between 15% and 18%. We also have an Industrial Financing Fund consisting of resources given to us by the Bank of the Republic for investing in small businesses on a long-term basis, as well as resources called Resolution 59, a line of credit to finance enterprises with international business. We also have lines of credit of about $7,000,000 U.S. with banks in the United States, Latin America and Europe. We hope to be able to multiply this figure very soon. The needs of foreign trade, both for conventional industry and for cooperatives, are increasing within the bank. We have met with the U.S. banks that are now our correspondents to extend coverage in this area and increase our transactions, which, as you know, are very profitable for the Colombian Workers' Bank.

The Bank has been received with friendliness and acceptance from industry, government, and organizations in the public sector. We now have various types of deposits - traditional checking accounts, savings accounts, term accounts and trust accounts. These resources provide us with approximately 400,000,000 pesos for our everyday activities.

There is a law in Colombia called the Ratio of Liabilities with the Public, which enables banks to work with resources ten times greater than their capital and reserves. Since the Workers' Bank has a paid-in capital of 100,000,000 pesos and a subscribed capital of 150,000,000, this means that it can operate with one billion pesos. However, the bank's success has been so great in all sectors that at present it is operating with 1.4 billion pesos, that is, with 400,000,000 pesos above the legal level.

The level is controlled by the superintendent of banks of the country, who frequently calls this to our attention and once even fined us a symbolic amount. We appealed the penalty, arguing that we were being fined for efficiency, that our Bank had the widest acceptance among depositors, government, cooperatives and unions, and that this was evident in our ability to attract deposits. The government accepted our viewpoint and has been somewhat obliging in its dealings with us. If it hadn't, we would be paying montly fines for exceeding the ratio of liabilities. This emphasizes the degree of acceptance the bank has achieved in the traditional industrial and commercial sectors.

Another basic aspect of the workers' bank is that not a single peso of its capital came from the government. The government does, however, contribute to the bank's deposits with funds from what are called decentralized institutes - agencies that administer workers' funds, such as the social security fund to which workers contribute to cover the costs of social and medical assistance. This agency, which receives large funds, has a budget of 15 billion pesos ($380,000,000 U.S.). We proposed and the government accepted, that part of these vast resources from workers be deposited in the Workers Bank because it is the natural place to channel workers' resources. We are requesting the same thing from the other eight or nine agencies that receive funds from workers, such as the National Savings Fund, National Training Service (SENA), Compensation Funds, the Institute of Family Welfare, and other private agencies called Family Compensation Funds. There are no laws or standards in this respect; rather, it is a bank policy to invite these agencies to deposit their funds in the Workers' Bank.

The policy of attracting deposits from government agencies obliges us to increase our subscribed capital. At our next general meeting, to be held in February 1979, we plan to ask our shareholders to increase the capital by at least 100,000,000 pesos.

The bank is a workers' bank, but in its banking operation it is governed by the same rules as other banks. However, we have a special advantage for our shareholders and clientele -- the value of the loans we extend. At present, of the general volume of our portfolio, between 35% and 40% is placed in cooperatives, mutual funds, unions and other organizations, which we refer to as the third sector. We charge these organizations special interest rates ranging from 12% to 20%. But operating costs are 22%. This part of the portfolio represents a loss. The remaining 60% is placed at rates of 24% to 29%, which compensates for the subsidized loans given to third sector organizations. We use a rather unusual system that we call reciprocity to help our members. For example, if a cooperative has a million pesos in shares and it borrows a million pesos, we charge it an interest rate of 12% for the million borrowed. If the same cooperative needs two million, the rate is 14%. If the ratio between the amount saved and the amount borrowed is one to three, the interest rate rises to 16%, and so on, until it reaches 20%. This is an important service, since in Colombia the cheapest credit available on conventional lines of credit is 27%. The only exception is for funds that are rediscounted in the Bank of the Republic; these are placed at 17% because they are not the Workers' Bank's own funds but rather funds given by the Bank of the Republic to foster agriculture, livestock breeding, reforestation and small industries.

In spite of maintaining a portfolio offering subsidized interest rates, the bank has shown acceptable profits and has had a yield of 20%, which is encouraging for the shareholders because, in addition to receiving special interest rates, they have a 36% yield on their shares.

I would like to make the specific proposal that we find a way to establish permanent lines of credit among workers' banks of America, so that we may work together more closely.

It is possible to think in terms of the Andean sector and the Caribbean sector, since I am certain that there will always be importers and exporters to whom we can extend lines of credit and thus be in permanent contact.

Thank you very much.

PERSONAL LOAN PROGRAMS

Filipo Benítez Trinidad

The National Workers' Bank of the Republic of Paraguay was established by Law No. 423 of 1973. Its capital was formed by mandatory contributions of .5% of the wages of all workers of the republic. The social security system (I.P.S.) acted as a withholding agent for the bank. These workers hold class A shares in the bank, with class B shares being held by associations of class A shareholders. In this way the workers are represented at the assembly. Class C shares can be purchased by any individual or company and class D shares by the Ministry of Finance.

The spirit of Law 423, which led to the establishment of the National Workers' Banks, is based on the social advancement of the Paraguayan worker. Among its objectives are: "Promoting the well-being of workers through credit plans, bonds, individual loans or loans to unions, cooperatives, associations, and other worker-related entities; fostering systematic savings and encouraging workers, through appropriate incentives, to use their incomes in a rational way."

Since the worker is the basis of the bank's structure as well as the very foundation of industry, another objective is to give loans to cottage industry and to other industries in order to increase the number of jobs in the country. As an industrial bank, through adequate regulations and a good system of financing, the bank can further the country's development in this sector. It also fosters the strengthening of cooperatives and other entities with social and economic objectives.

In keeping with these goals, the National Workers' Bank is authorized to operate within the traditional structure of the commercial banks. The threefold role it plays -- social, industrial, and commercial -- distinguishes the National Workers' Bank from any other banking institution in the country.

Law 423/73 represents a true innovation in Paraguayan banking legislation. It corresponds to a government plan to improve

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Filipo Benítez Trinidad is the President of the Banco Nacional de los Trabajadores de Paraguay

the industrial development of the country, the standard of living and the dignity of the Paraguayan worker. The workers not only have access to group and personal loans but also are responsible, through their representatives on the board of directors, for the administration and management of the bank. Class B shareholders, comprised of unions, associations, etc., together with class D shareholders (the Paraguayan government), make up the assembly of shareholders, the supreme authority of the bank.

The bank began operations on May 19, 1975. Since then, it has experienced significant growth in its operational volume as well as in its capital composition and turnover.

1975	G104,375,000
1976	189,282,000
1977	289,221,000
1978 (September)	491,249,000

At the close of 1977, the bank's capital consisted of only 48% of the authorized sum of G600,000,000 limiting its expansion. By September of 1978, because of enthusiastic support and increased confidence, it will have reached 81% of the authorized amount. Still pending is the decision of I.P.S. concerning amounts for previous fiscal years and the contributions for 1978. With these funds the bank will have practically reached its full authorized amount, which initially had been expected to take ten years to attain. Steps are now being taken to plan for the bank's expansion in its fourth fiscal year.

The new confidence in the bank can be seen in the following figures:

date	deposits	loan portfolio balances
1975	186,800,000	289,200,000
1976	590,000,000	694,200,000
1977	1,459,700,000	1,294,600,000
1978 (September)	1,845,145,000	1,689,215,000

	group loans		individual loans	
date	amount	people reached	amount	people reached
1975	18,5000,000	844	38,153,521	237
1976	59,100,000	2,080	210,501,300	1,161
1977	145,900,000	3,245	169,385,950	476
1978(Sept.)	152,540,000	1,717	165,551,820	370

The difference between the loan portfolio balances and the combined group and individual loans is accounted for by commercial loans.

year	loans made	loans recovered	%
1975	G 390,200,000	G 99,700,000	25%
1976	1,107,200,000	740,000,000	66%
1977	2,288,300,000	1,668,900,000	72%
1978 (Sept)	5,672,600,000	5,260,400,000	92%

Credits for International Operations
(advances, in thousands of guaranis)

1975	G 105,611
1976	135,151
1977	636,469
1978 (September)	620,425

The growth shown in these figures clearly illustrates the effort being made to meet the increasing demand from business, trade and labor and demonstrates as well the significant place the bank has in the country as a financial institution.

Using information from technical studies, we have set up a new structure for the loan portfolio, giving priority in the commercial sector to higher-yield operations in the hope of obtaining economic results that will increase and improve our capacity to provide group and personal loans.

The success of workers' banks is fundamentally due to the harmonious way in which they coordinate high and low-yield operations, based on the premise that loans geared to the labor sector are low yield and must be offset by the commercial part of the operations.

In the above table one can see changes under the headings of group and individual loans. The bank has established regulations and articles to make these loans more flexible, using experience gained from other systems that are carefully designed to take such factors into account as salary level in relation to cost of living.

For personal loans, the amount of the installment may not exceed 30% of the applicant's monthly income, nor may 200% of the installment payment exceed monthly creditworthiness, that is, the difference between income and declared expenditures. These same approximate parameters are used to calculate group loans given to groups of ten worker shareholders, with a minimum term of 24 to 30 months of equal monthly payments, the loan being guaranteed by the union, association, etc. Of course, the group guarantee means that if one of the beneficiaries is not able to make this payment, the nine others of the group must make the payment for him. This is done through an additional payroll deduction made at the place of employment. Each month the bank makes available to the employers a schedule of the payroll deductions, which are to be made to meet employees' loan repayment obligations. These funds are transferred to the bank. If this is not done, the employers are obliged to make a withdrawal and deposit it, as provided by Article 47 of the law establishing the bank.

This system, first begun on an experimental basis, has been functioning up to now without any difficulty, since the loan recovery rate is practically 100% in the cases of the above group loans; the same is true for personal loans, which are available to property-owning individuals with higher incomes. Among the requirements are that the debtor and cosigner must own at least some real estate, free of encumbrances, as an indication of their creditworthiness. The delinquency rate for these loans does not exceed 10% of the portfolio, which does not mean that it is impossible to recover the loans but simply that there are delays in payment. The possibility of a borrower stopping payments on his loan are minimal, since all workers contributing to social security are accounted for by our recording system each month and employers are obliged to withdraw the loan payments. If a debtor changes jobs, the bank assigns the appropriate discount schedule to the new employer. However, someone might stop payments if he were unemployed or left the country.

Personal group loans include the cost of life insurance. In the event of the borrower's death the balance of his loan is automatically covered through a life insurance plan. This is financed through a collective insurance plan. Every month the total package of bank loans is sent to an insurance company, which issues comprehensive policies by number, that is, not individually but by groups of borrowers.

In 1976, the bank launched an experimental plan for financing the construction of low cost housing units and coordinated the management of the program with the union organizations that had requested it. First, the bank financed the construction of a group of 57 housing units for workers in the meat industry, who were owners of vacant lots. The project was based on a cooperative, or self-help, system. Contributions were required from employers, from the participating union and from the owners of the lots, who formed groups or teams of workers according to their related specialties, since among groups of workers there are those who, in addition to their normal job skills, have other specialties, such as masonry, carpentry, plumbing, etc. Together they were able to complete most of the construction after work, on holidays or with the permission of the company as part of its contribution to the project. The part financed by the bank then was limited to the purchase of materials and to the cost of specialized services that the team workers could not provide themselves.

Based on this experience, a second project was begun to build 47 housing units for members of the workers' union of a sugar mill located in the town of Benjamin Aceval in the Chaco Paraguayo.

The first group was given loans with terms of up to three years and the second, loans of up to four years. To receive this financing, the applicants had to have at least ten years of service in their jobs; be owners of the lots on which the houses were to be built; have families of at least five persons; and have family incomes that enabled them to make the loan payments according to the same guidelines as for group loans.

The average amount financed per person or per housing unit built was equivalent to about $1,350 (U.S.). According to the official exchange rate of 126 guaranis per dollar, the average construction cost financed by the bank was 3,500 guaranis per square meter or US$27.77, considering that the average was approximately 48.61 square meters per unit. This is about 35% of the normal cost of a housing unit of this type. The substantial savings evident in the costs were also due to satisfactory management by those responsible for the distribution of materials and precise calculation of needs. Because of this calculation, materials could be purchased in volume, which naturally lowered their cost.

Paraguay is currently experiencing a period of exceptional economic growth. Although the country does not have oil, it has sufficient sources of energy, especially hydroelectric energy, under development or scheduled for development to become an energy exporter. This, plus the fact that it has wisely diversified its exports, has led to a sigificant growth in international reserves and in the Gross Domestic Product, which showed an increase of 11.8%, the highest in

Latin America. Paraguay also has a free exchange market and political stability. This healthy economic situation, the experience of the two completed projects and the many new requests for housing assistance has prompted the bank to undertake the preparation of a broader, more complete feasibility study. The study will provide the basis for a well-defined housing plan which, because of the factors mentioned, should attract the financing needed for its implementation. The previous projects were carried out partly with resources from a foreign loan from South Africa ($1,000,000 U.S. at 7.5% annual interest for five years with a one year grace period), and also from that portion of the bank's capital that is earmarked for the social loan segment of the bank's portfolio. It would be impossible to handle this type of undertaking with normal resources because of the high cost of that money compared to the low return on the social loans (10% annual interest plus service commission).

The bank intends to develop group and personal loan plans; it has organized an entire department with two administrators and four assistants, each with a clerk to process all the information through a computerized system. For this purpose the bank has a specialized center, equipped with a Century 100 computer and other equipment, in which all data can be processed. It is estimated that the operations related to the group-personal loans system represent from 6% to 8% of the cost of bank equipment and manpower.

COMMERCIAL, DOMESTIC AND FOREIGN OPERATIONS

Eleazar Pinto

The Venezuelan Workers' Bank was established by the Workers' Confederation of Venezuela and its national trade unions. Fifty percent of its capital consists of shares bought by the government; the other 50% is shares bought by federations, unions and individual workers. The law allows the bank to sell shares to people who are not affiliated with the unions. However, nonunion members do not play a role in the bank's management or in shareholder meetings.

The government's participation in the workers' bank is in direct correlation to union and worker participation. When unions or workers buy shares, the government then buys an equal amount. The difference between government-owned and private shares is that the government, according to law, doesnot receive dividends on its shares. These dividends become part of the bank's legal reserves. Furthermore, the government is legally obliged to sell its shares to workers, federations and unions whenever they wish to acquire them. For the time being efforts are not being made to change this situation, since the government's participation, with the accompanying accumulation of dividends, is advantageous to the bank.

The bank functions in the commercial sphere as does any other Venezuelan bank except that it uniquely combines commercial and mortgage lending. This gives it some advantages in its operations, but nonetheless, the initial period of the bank's existence was somewhat difficult.

Commercial operations were started with a promotional campaign in which we offered our services to a number of large Venezuelan firms involved in industry, services, trade, construction, etc. This campaign produced good results, so much so that by August 1978, dealings with the government and private companies and in personal transactions, loans and discounts had reached 3.2 billion bolivars.

Note: The exchange rate as of October 1978 - 1 dollar to 4.28 bolivars

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Eleazar Pinto is President of the Banco de los Trabajadores of Venezuela

Later, we tried to attract resources from companies we were providing with loans, and we established a policy requiring our borrowers to deposit in their current accounts an amount equivalent to 5% to 15% of their credit operations maintained with the bank.

Circumstances at that time favored this policy. The Venezuelan government had to take some measures in July 1977 to slow down inflation. Among them was a decision to require that banks increase their legal reserves, raise their interest rates and restrict their loans to specific sectors.

These measures led to a significant reduction of the money in circulation. Fortunately, at that time the workers' bank had some funds available and expanded its loan policy. Nevertheless, deposits were inadequate to meet the requests of Venezuelan business. The bank therefore turned to correspondent banks in Europe and the United States and was able to mobilize $340,000,000. It was very careful in administering this money and as a result has not had a single day of arrears in its commitments to international banks in a loan portfolio of up to $400,000,000.

Having made inroads in the Venezuelan commercial banking sector, we managed to convince the government that the bank is indeed solid and well managed. The Labor Representation Law, which requires all government institutes and companies to have a director representing labor also helped the bank. Through representatives from the Venezuelan Workers' Confederation, the bank was able to explain to Venezuelan government bodies what the workers' bank was and the reasons it deserved the government's confidence. This led to excellent results not only with respect to the volume of deposits but also to the loan portfolio with the government sector.

Reviewing figures, we see that on August 31, 1978, the Venezuelan Workers' Bank had 2,726,000,000 bolivars in commercial credits, 606,000,000 in mortgages and 188,000,000 in personal loans; it had issued letters of credit worth 450,000,000 bolivars outside of Venezuela and 122,000,000 in the country. The credits in process reached 60,000,000 bolivars, and term deposits, 143,000,000. Savings deposits totaled 293,000,000. Current accounts were valued at 67,000,000 bolivars, which was a drop compared with the June balance of 430,000,000. Government deposits totaled 1,598,000,000 bolivars, government loans approximately 2,4000,000,000, deposits in foreign currency 370,000,000, and the trust portfolio, 338,000,000.

There is currently a bill before Congress requiring that at least 50% of all workers' trust funds be handled through the workers' bank. It is estimated that workers make about 12 billion bolivars in social contributions. Part of these funds are now being handled by the Central Bank of Venezuela. So that workers' loans will earn profits each year, it was agreed that the annual interest rate on workers' contributions would be 7.5%.

During the first half of 1978, only three Venezuelan banks had higher earnings than the workers' bank; the Industrial Bank, earning 71,000,000 bolivars, the Venezuelan Bank, earning 57,000,000 and the National Discount Bank, 52,000,000. The workers' bank had profits of 38,100,000 bolivars. Unless the other banks have an extraordinary performance during the rest of this six-month period, it is probable that the workers' bank will rank first in Venezuela in earnings, which would put it in second or third place with respect to earnings at the end of the year.

Moreover, when an analysis is made of the efficiency of the Workers' Bank, taking account of profits and paid-in capital and capital reserves, one sees a real increase of 32.2% compared with the national growth rate of 10%. As to profits on paid-in capital, the workers' bank reached 73.2%, compared with the national rate of 18.6%. Its average profits on total gross foreign assets, excluding capital and reserves, was 1.5% compared with the national figure of .7%.

As to total loans and discounts on total gross resources, the workers' bank registered 67.7%, compared with the national average of 34%. Therefore, one can see that the Venezuelan Workers' Bank is very efficient and that nothing relegates it to a secondary position in the national banking system. On the contrary, like the other workers' banks in Latin America, it has succeeded in establishing its position as one of the best banks on the continent.

It is important to stress that neither this bank nor any other workers' bank is a welfare organization and therefore their loans go to housing cooperatives and worker enterprises, such as CORACREVI, a firm that in addition to working in urban development and housing programs has interests in maritime transport, prefabricated housing, etc. CORACREVI is a main shareholder of the workers' bank.

One of the most acute problems in Venezuela is the housing shortage with a deficit of at least 800,000 units. The Workers' bank has to date financed approximately 11,000 housing units of different types. Moreover, a proposal has been made for a housing program that, using the bank's technical know-how, would help launch a plan resulting in the construction of 20,000 housing units throughout the country. The advantage of this plan is that the bank itself would not be the builder but would provide credit to experienced builders provided that the houses built were for workers with savings accounts in the bank.

The bank has already begun this program in Caracas by building about 5,400 apartments. The foundation has also just been laid for the construction of prefabricated houses, a project designed to produce 2,500 units per year. The workers' bank hopes to be able to produce by combining different plans a minimum of 20,000 units in the near future.

In conclusion, the workers' bank is intent on becoming the first bank in Venezuela in terms of its paid-in capital and hopes to reach this goal within the next three years.

ORGANIZED LABOR AND WORKERS' BANKS IN LATIN AMERICA AND THE CARIBBEAN

Tulio Cuevas

Workers' banks should not depend solely on the enthusiasm of the labor and cooperative movement or on the joint action of farmers, and even less so on the efforts of national governments, to attract workers' savings. To be successful, it is essential that they have the cooperation of the international banks, especially one dedicated to the task of development. Consequently, I would like to express the gratitude of the workers of America to Dr. Ortíz Mena, President of the Inter-American Development Bank, whose words have been encouraging. Now I believe it is up to us as organized workers to prepare the projects necessary to further strengthen our credit organizations.

The workers' movement is specifically responsible for sponsoring, stimulating and promoting the establishment of workers' banks. But we are not alone in the labor union sector; there are many other groups,some of whom, unfortunately, are taking advantage of the vehicles offered by democracy to make a demagogic impression in Latin America by using the great needs of our people as a platform. For example, they do not believe in credit entities. They claim that workers' banks are palliatives of the Latin American oligarchy to quell the workers' desire to struggle for change, for the "revolution".

We, on the other hand, feel that with our own resources and within a framework of liberty and democracy we can make the necessary changes to provide our people and especially our children with a better life. This is the big difference that separates trade union movements fighting under extranational flags and trade union movement we represent, which promotes a healthy and progressive nationalism.

It is also essential that the private sector, large banks with branches in our countries of Latin America, understand the real scope of the situation. We workers are not in disloyal competition with private banks. We simply want to take advantage of our own resources, so that they can earn profits for their owners.

Tulio Cuevas is Vice President of the Inter-American Regional Labor Organization (Organización Regional Interamericano de Trabajo, ORIT), President of the Board of Directors of the Workers Bank of Colombia, and Secretary General of the Union of Colombian Workers (Confederación de Trabajadores Colombianos, UTC).

Nor do we criticize private banking for its less than receptive attitude toward certain social strata and marginal groups. We understand that a bank is a business established to promote the economic development of its customers and shareholders and that is how it operates. But workers' organizations with their own credit entities are now becoming a part of the world of finance, and we hope to have the understanding and cooperation of private banking. It is your responsibility to help us with your experience and resources, with confidence in the soundness of the investment, if only from the viewpoint of ensuring social peace in a developing world.

When we reflect on development in human societies, we reach the conclusion that progress and general well-being is due to the existence and improvement of institutions forged and controlled by the people. Therefore, underdevelopment can be explained by the absence of such institutions or an ambivalent approach to them when they do exist.

The growing industrialization of Latin America and the Caribbean has meant that an increasing number of people live and work in cities; this is now the case for 61% of the total population. A large number of these workers have been setting up labor unions over the years as representative institutions in the economic and social spheres. These unions have even reached the rural areas in various countries of the region, where they include both farmers and non-farm workers.

Of the approximately 60,000,000 workers in Latin America and the Caribbean, some 22,000,000 are organized in unions, which means, among other things, that this vast segment of the society is working with increasing success for economic and social improvement. It is particularly noteworthy that this tendency to join forces in unions becomes stronger as the problems facing workers become even more difficult and complex.

The number of unionized workers is increasing every day despite unemployment, the reactionary policies of various governments of the area, which are aimed at dividing and weakening the labor union movement, and the repeated efforts of business to reduce the scope of collective bargaining. It can be said that these same obstacles have convinced workers that the only sure strategy to defend their interests is to become associated with their fellow workers, based on the traditional and well-proven principles that "in union, there is strength.

The trade union movement has developed as a dynamic institution in response to a membership that is ever more aware of its rights and responsibilities in the framework of a more rational social structure. From simply working to defend wages and the right to work, unions have become involved in economic, social and political arenas because of the workers' conviction that the key to society's overall development lies in the interest and participation of all citizens, especially workers.

This thesis became a reality on the continent in 1951, when the majority of the democratic labor union confederations formed the Inter-American Regional Labor Organization (ORIT).

Experience in the economic and social struggle made ORIT and its affiliated organizations aware that increases in wages and other monetary benefits disappear to a large extent with inflation and the various decisions made by the centers governing national and international economics. The worker does not have a way to protect the real value of his wages. Trying to solve this and other economic problems that prevent the worker from attaining a decent standard of living led the unions to undertake cooperative projects involving workers in profit-sharing schemes. The cost-of-living index, various types of mutual funds and, finally, the workers' banks were established.

The union initiative to establish workers' banks was based on an economic rationale. Having gained experience through its multifaceted endeavors, the union organization fully appreciated the potential of monetary resources not used by its members and amassed mainly in various retirement and benefits funds obtained through collective bargaining and union dues. It was noted that many workers had the capacity to save but did not have the appropriate outlet through which to channel these resources for their own benefit.

Labor thus felt the need to have its own financial institution to manage workers' resources and to carry out collective projects, most of which were not considered profitable from the point of view of ordinary financial institutions. In addition, the persistence of a negative attitude towards workers contributed to the need for workers to set up their own financial institution. Traditionally, the worker has been seen as an individual without higher aspirations, someone who is poorly paid and therefore an unreliable credit risk. The logical result of this stereotype has been that the worker has been unable to get credit guarantees, causing him to fall into the clutches of all types of usurers and driving him even deeper into the abyss of economic insolvency.

The fact is that union action has saved large labor groups from this abyss and that at present there is a large group of workers who can and do direct a portion of their income to savings and various types of investment. With respect to credit the worker must be considered not in an isolated way but together with his colleagues, so that the union organization itself must act as a collective guarantor in financial transactions.

From the political and social points of view there are even better reasons to establish a workers' bank. Historically, a bank is an institution set up by the community to carry out, with the confidence of its citizens, financial operations to support and foster the development of that community. It is therefore entirely logical that a group representing the special interests of a sector as broad as labor be included among the banking institutions of a country. Making all citizens producers and consumers on an equal basis should be a goal of all national institutions, since in this way the foundations are laid for a progressive society with full participation of its members.

The labor movement is trying to demonstrate that the workers' banks are a means by which the labor sector can act as a promoter and supporter of individual and group credit projects in the development of workers' cooperatives, in the construction and improvement of housing, in the management of various funds, in the reduction of the prices of consumer goods, and in a range of programs to improve the quality of life that are often not considered profitable by ordinary financial systems. A growing number of professional workers with relatively high incomes are becoming part of the labor union movement. Their ideas and economic objectives and the efforts they make to implement them stimulate original approaches to old problems by society and its leaders.

Historically, all banking institutions have received state support when they needed it to become established and operate, with the understanding that in this way instruments promoting development were being favored. In this case the trade union movement is trying to make all governments and their national financial systems understand that favoring the founding and functioning of the workers' banks promotes the dual objectives of mobilizing workers' financial resources in a more rational way and also promotes social harmony by allowing workers to participate in the handling of their own economic resources.

In practice, more than one national government has understood workers' needs and has given them a number of ways to provide workers' banks with initial operating funds, especially through the enactment of laws and the regulating of financial relations. For example, some new workers' banks operate with part of the funds collected by the national social security system.

But the project needs further cooperation, not only nationally but internationally, for the sake of development and world peace. With the full understanding and encouragement of this project by the Organization of American States, the Inter-American Development Bank and the American Institute for Free Labor Development, various workers' banks have been founded in Latin America and the Caribbean. Their growth and the effective planning of social benefits will be based on the continued and increasing cooperation between international institutions and the national groups supporting workers' banks. The appearance of institutions like the workers' banks corresponds to an acceleration of social development that is in response to the needs of the popular sector.

In the case of workers' banks in Latin America and the Caribbean, the steady growth of the labor sector and its tendency to give economic weight to the labor movement guarantee that there will be growing pressure for broader and more varied services from labor organizations. In continuing our national and continental campaign to expand and strengthen workers' banks, the free and democratic labor movement represented by ORIT is certain that it is interpreting the needs of the time and the foreseeable demands of the future.

THE WORKERS' BANK AS AN INTERMEDIARY IN THE HOME OWNERSHIP FINANCING MARKET

N. V. Hackett

THE OBJECTIVES OF THE BANK IN THE HOMEOWNERSHIP FINANCING MARKET

By its charter of incorporation, the Workers' Bank Act of 1971, the Workers' Bank of Trinidad and Tobago has been specifically required to pursue "the development of housing programmes" as a major objective. This major objective was identified in the act with, perhaps, an even more fundamental objective: "to promote the economic and financial welfare of workers . . . by providing banking facilities especially designed to encourage thrift and the prudent utilisation of savings." The bank has, therefore, from its inception, always sought to be active in the homeownership financing market as an innovative financial intermediary.

One result of this activity is that, unlike the pattern of loan portfolio distribution at other local commercial banks, long-term real estate mortgages account for approximately 21% of our consolidated loan portfolio; our combined "own account" and "agency" real estate mortgage portfolios almost equal our total consolidated "own account" loan portfolio. As of August 31, 1978, the bank and the trust company were administering a mortgage portfolio valued at $43,800,000. Equally significant is that for the last full financial year (1977) the bank, through its "own account" and "agency" activities, issued an aggregate of $20,250,000 of mortgage commitments.

N.V. Hackett, FCIS, MBIM, is General Manager of The Workers' Bank of Trinidad and Tobago and Managing Director of its Trust subsidiary. This paper was presented at the meeting by Carl Tull, Deputy Chairman of the Board of Directors and Secretary General, Trinidad and Tobago Labour Congress, and by Adeline Hamid, ACIS, AMBIM, Corporate Finance and Planning Officer, Workers' Bank of Trinidad and Tobago.

Note:
All figures are given in Trinidad and Tobago dollars. Included with the Trinidad and Tobago presentation to the meeting were five statistical annexes, which lack of space prevents us from including here.

Our penetration into the homeownership financing market is, therefore, markedly disproportionate to the term of our existence and our "own account" resource base. We believe this penetration reflects the success of the product development policies we have pursued.

Following a rather tentative start in 1972, when $500,000 of the originally subscribed equity, $2,145,150, was allocated as a funding base for our "own account" long-term mortgage portfolio, the bank and two other financial institutions entered into a mortgage agency agreement with the National Insurance Board (NIB). The agreement covered the placing of mortgages and the administering of mortgage portfolios, which constitute a significant part of the investment portfolio of the social security scheme. The mortgages initially placed for these portfolios were mainly of the middle-income level because lower-income people were hardly in a position to meet the NIB criteria, which included a 20% down payment. As early as 1973, therefore, the bank, mindful of its obligation to be of service to the lower-income sector, embarked on three innovative departures from the existing homeownership financing practices in Trinidad and Tobago:

(a) the development and marketing of the lower-income Home Ownership Savings for Equity Plan;

(b) the funding of a low-cost mortgage portfolio by the issue of mortgage-backed debentures by the trust subsidiary, which was incorporated in May 1973; and

(c) the development and marketing of a composite homeownership loan providing for the concurrent amortization of a long-term mortgage loan for house and land and a short-term mortgage loan for furniture and appliances.

The success of the lower-income homeownership savings plan and the composite mortgage loan plan stimulated a demand for similar financing for the middle-income people. We responded in 1975 with an improved version of the homeownership savings plan for the lower- to middle-income sector of the market. The original version, programmed over 24 months, was designed to accelerate the acquisition of equity for financing furnished houses over as short a term as 18 months. Such equity was indicated as 10% of the lower of valuation or cost of house and land and 20% of the cost of furniture and appliances. This plan also provided customers who proposed to build rather than buy the opportunity to accelerate further the process of acquiring an interest in the property, thereby avoiding the frustrating effects of inflation in a rising property market on their originally identified equity objective. This was achieved as follows.

Customers were required to save for six months towards the equity in the land (16% of the lower of valuation or cost of acquisition). Having obtained the land loan, they made identical deposits for another six months, following which an interim construction facility for the construction of the house was granted. At the end of the interim construction period -- six more months during which the same deposit arrangement continued and installments due on the land loan were debited to the savings account -- the sum of the equity in the land and the balance on the savings account was equivalent to a 10% equity in the house and land and 20% equity in the required furniture and appliances. Then the composite loan facility would take out the balances due on the land loan and interim construction loan.

During 1976 and 1977 these plans, available to the middle-income group, enabled the bank to achieve unprecedented penetration into the middle-income sector of the market. The year 1977 was the bank's most successful in the middle-income mortgage market. Total year-end outstanding loans under these portfolios increased from $23,900,000 in 1976 to $34,300,000 in 1977.

Meanwhile, as rapid increases in building costs and land prices virtually placed commercial financing beyond the reach of the lower-income group, the bank's presence in this market was completely eroded. It therefore became necessary for the government to take the following actions to ensure the availability of low-cost financing and to provide directly subsidized financing:

(a) Introducing of the National Housing Authority - "soft loans" program;

(b) increasing the loan limit for the availability of National Housing Authority guarantees of low cost housing loans; and

(c) authorising the National Insurance Board to acquire control of the Trinidad and Tobago Mortgage Finance Co. Ltd. (to service the upper levels of the low-cost mortgage market, i.e., properties valued up to $125,000).

In December 1977 our trust company joined with the National Housing Authority to place mortgages and administer mortgage portfolios. Under the National "soft loans" program loans are granted for the construction of new houses up to a maximum of $40,000 or 95% of the total construction, whichever is less. The loans are for families of at least a couple with a dependent child and income of not more than $845 per month. For larger families another $80 per month is allowed for each additional dependent child, or $25 per month for each dependent relative. The interest rate on these loans is 3.5% per annum or the rate the National Housing Authority prescribes. With current building costs and wage levels, it is evident that the soft loans program is intended to serve only the lower levels of the low-income market. A review of building costs and wage levels led the bank's management to conclude that for the immediate future our main product development activities should be aimed at the middle-income market. This view was reinforced by the following statement in the Prime Minister's 1978 budget speech:

> "The Government's policy will be restricted to loans not exceeding $100,000 and to persons with a monthly family income of not more than $2,500 who do not already own houses."

Our analysis of new middle-income mortgage loan applications revealed that property values ranged from $125,000 to $200,000, and loans (assuming 10% equity) ranged from $112,500 to $180,000. The criteria applied to conventional mortgage financing, therefore, indicated that the required monthly family incomes be in the range $3,275 to $5,240 for a 25-year amortization at 9.5% per annum.

This level of required family income meant that yet another group was being excluded from the mortgage finance market. This group of young "career-worker" families -- skilled technicians, graduate teachers, junior professionals, etc. -- fell just outside of the ambit of the state-agency sources of mortgage finance. Yet they constituted a numerically significant and highly motivated group of potential home-owners. It was clear to us that in the context of the country's rapidly developing industrialization program and associated developments in the public sector, these people were assured of career paths that would inevitably generate continuously rising incomes. In addition, we believed that it was socially desirable that they have early entry into the class of people who own residential property, which would enable them to raise their children in the environment they desired. Finally, we fully expected that, given the wide imbalance between the demand for and supply of housing, costs would continue to rise at a rate that would frustrate the access of this group to the mortgage money if we relied on conventional instruments for mortgage financing.

It was with those considerations in mind that the VARINSTALL(R) mortgage finance options were developed. We were encouraged by news in the financial journals that the North American market was actively considering variants of such plans to provide a solution to similar problems. We were gratified when our Chamber of Industry and Commerce expressed the desire to see such mortgage financing plans introduced in the Trinidad and Tobago market.

VARINSTALL(R) is a graduated installment mortgage finance plan that provides for (1) loan amortization with the initial deferment of the repayment of principal, (2) the initial part payment of interest, and (3) a variable amortization installment increasing over the term of the mortgage loan on the basis of a predetermined escalation index. We use an escalation index of 3.5% compounded annually to satisfy a number of constraints, which will be mentioned later.

The VARINSTALL(R) mortgage finance plan provided for the harmonisation of the VARINSTALL(R) concept with the Composite Loan concept previously developed for the earlier homeownership plans. At 9.5% per annum the initial monthly installment for a VARINSTALL(R)-Mark I 25-year amortization is 25% lower than the monthly installment for a conventional 25-year amortization. By the Normal criterion of 3.333 times family income cover, it permits homeownership for a family with a monthly income of $720 less than in the case of a $100,000 mortgage loan. The initial monthly installment for a VARINSTALL(R)-Mark II composite of a 25-year amortization of a $100,000 mortgage loan at 9.5% per annum and a 24-month add-one furniture loan at 10% per annum is approximately 50% of the sum of the monthly installments required under conventional financing.

Our examination of mechanisms for financing middle-income residential property led us also to the realization that too few new homeowners appreciate that the covenant to repay a long-term mortgage loan is not the only long-term commitment required of the homeowner. Continuing residential property expenses (rates, taxes, insurance, normal maintenance, major repairs, renewals) will give rise to irregular and onerous outlays for which - usually - no systematic provision is made. We therefore proceeded to develop, as a discretionary option, the VARINSTALL(R) residential property expenses financing plan, providing for a variable deposit (increasing along the VARINSTALL(R) curve) sinking fund to meet projected, inflation adjusted expenses at given dates during the period of the mortgage. Customers are advised that the sum of VARINSTALL(R)-Mark I or -Mark II monthly installment and a VARINSTALL(R)-Mark Ø monthly deposit requires a family income cover of at least 2.222. We believe that this option can improve the attitude of homeowners toward maintenance, thus insuring the values of residential properties.

Finally, to relieve our operations of the vagaries of capricious agency arrangements, we felt that a more direct process of intermediation was desirable, and that the mortgage-backed debenture securities, utilized in 1973 for our low-cost housing portfolio, should be reintroduced to the market for our VARINSTALL(R) mortgage portfolios. So far, we have not been successful in persuading the Ministry of Finance that these are suitable investments for the statutory portfolios of pension funds and insurance companies, even though we have pointed out that the Bank of America has succeeded in securing SEC and IRS approval for similar securities in the U.S.A. and that the concept is similar to the participation certificates of the U.S. Government National Mortgage Association or "Ginnie Mae".

THE LOWER-INCOME "SAVINGS FOR EQUITY" AND HOMEOWNERSHIP PLAN

The escalation of land and house prices over the last six years is shown for various residential areas.

	price of land		price of house	
area	1973	1977	1973	1977
Diamond Vale	$5,000	$30,000	$15,000	$87,000
Trincity	5,000	30,000	25,000	100,000
Petit Valley	7,500	30,000	42,500	220,000
Lange Park	4,250	35,000	25,750	65,000
Malabar (Private)	4,000	25,000	21,000	50,000
Victoria Gardens	7,500	40,000	57,500	240,000

area	total cost 1973	total cost 1977
Diamond Vale	$20,000	$117,000
Trincity	30,000	130,000
Petit Valley	50,000	250,000
Lange Park	30,000	100,000
Malabar (Private)	25,000	75,000
Victoria Gardens	65,000	280,000

It should be noted though that our bank provided mortgage financing for 155 low-cost houses at Trincity in 1973, which were sold for $13,500, and for 279 in 1974, which were sold for $17,500. This was the period when we were able to operate the lower-income "savings for equity" and homeownership plan referred to earlier. We captioned our advertising copy: "Open the door to your own home with as little as $20.40 weekly." The objective of the plan was to provide convenient and easily affordable composite financing for people with modest to average incomes to buy furnished houses.

The plan was operated either by the bank or jointly by the bank and its subsidiary company, the Workers' Bank Trust Company (Trinidad and Tobago) Limited. Participants in the plan were required to make weekly or monthly deposits of standard amounts on predetermined dates for a period of 104 weeks or 24 months. One range of deposits, with accrued interest, yielded an amount equal to the equity the borrower needed to qualify for a mortgage loan -- 10% of the valuation of the house and land as approved by the bank or trust company.

Another deposit plan built up sufficient equity to qualify the customer for consideration for a composite mortgage loan to construct or buy a home -- 10% of the valuation of the house and land as approved by the bank or trust company plus a down payment equivalent to 20% of the purchase price of furniture and appliances, to be financed by a furniture and appliance loan.

The loan amounts were subject to the following limits:

-- The amount of a furniture and appliance loan was not to exceed 12.5% of the approved valuation of the house and land financed by the mortgage loan.

-- The accumulated deposits and interest, which yielded the borrower's equity of 10% of the valuation yielded this equity only on maturity of the plan, that is, if the participant made the predetermined 104 weekly or 24 monthly deposits to the plan account. Prematurity loan options normally showed a progressive increase from 30% equity in the approved valuation of the house and land when the borrower became a member of the plan, to 10% equity in the approved valuation at maturity.

-- Withdrawal of any funds from a plan account affected the borrower's equity in the following manner. The progression of the borrower's equity from 30% to 10% of the approved valuation was retarded by such predetermined factors as the crediting of interest at 3% per annum on sums withdrawn, on a "first-in first-out" basis, instead of at the rate used in construction of the plan tables.

-- The maximum amount of mortgage loan was what could be amortized over the agreed period by weekly or monthly payments not in excess of 25% of the borrower's gross weekly or monthly income.

-- The maximum amount of the composite loan was what could be amortized over the agreed period by payments not in excess of 28% of the borrower's gross weekly or monthly income.

-- For the purposes of the maximum mortgage loan and the maximum composite loan, 100% of the income of the borrower and his or her spouse was taken into account if both had sources of income that were acceptable to the bank and/or trust company.

-- The maximum payment under either the mortgage or the composite loan did not exceed the rent (if any) then paid by the plan participant, plus the average of his weekly or monthly deposits (or lesser period) during the life of the plan account, plus 20% of the sum of those amounts.

-- The maximum period over which a mortgage loan was to be amortized was 25 years or a shorter term that allowed for amortization of the loan by the participant's 60th birthday.

-- In the case of a mortgage loan for building or buying a house on leasehold land, the period of amortization did not exceed a period that was two years less than the unexpired term of the lease.

Houses, furniture and appliances financed by loans made under the plan were covered, at cost to the borrower, by hazard insurance. Group life insurance was also arranged at the borrower's cost. All recurrent property charges -- land and buildings, taxes, water and sewerage rates -- were paid by the bank or trust company for the account of the borrower. Weekly or monthly amounts in respect of all these expenses were in addition to the weekly or monthly loan installments.

DEBENTURE FUNDING OF THE 1973 LOW-COST MORTGAGES

The 1973 low-cost mortgages were the first occasion for us to issue mortgage-backed debentures as a source of funding for a mortgage portfolio. We were not able to get Ministry of Finance approval for the securities to be acceptable for the statutory investment portfolios of pension funds and insurance companies, even though the underlying mortgage securities were approved for National Housing Authority guarantee. One insurance company did participate in the issue on the basis of an investment outside of the scope of its statutory investment portfolio.

THE MECHANISM FOR THE COMPOSITE OF A LONG-TERM MORTGAGE LOAN AND A SHORT-TERM LOAN FOR FURNITURE AND APPLIANCES TO BE SERVICED BY A SINGLE NONVARIABLE MONTHLY INSTALLMENT

Perhaps some comment is in order on the background to the introduction of this plan. About the time of its introduction, the then Minister of Finance commented in a budget speech that National Housing Authority mortgagors were defaulting in their mortgage payments because they were using their disposable incomes to pay short-term furniture and appliances loans instead of their mortgage loan commitments. The bank had noticed this problem too. While we had considered a home a furnished and equipped house, the banking regulatory authorities considered the financing of furniture and appliances as the financing of "consumer durables" and accordingly prescribed that such financing should be amortized over a relatively short term. But the long-term lender for housing (a principal through a bank or trust agency) and the short-term lender for financing the consumer durables (a bank or finance company) were usually separate entities. This placed severe financial constraints on first-time borrowers, who found it necessary to pay back, concurrently, a conventional long-term mortgage loan and a conventional short-term furniture and appliances loan, a combination that could absorb well over 50% of gross monthly family income.

The bank's solution to this problem was to use for short-term loans funds that could be released, by way of deferring repayment of mortgage capital and partial payment of mortgage interest, during the initial 24 months of the mortgage loan (the duration of the short-term loan). The unpaid interest for amortization is then capitalized over the unexpired term of the mortgage loan.

THE VARINSTALL(R) MORTGAGE FINANCE AND RESIDENTIAL PROPERTY EXPENSES FINANCING PLANS

I believe it would be helpful to discuss our justification for deciding on an annual escalation index of 3.5% per annum for the monthly installments of these plans.

Obviously, the larger the escalation index, the lower the resultant initial installments. In the case of the longer amortization terms, say 25 years, an escalation index of higher than 3.5% results in sufficiently low initial installments to cause outstanding mortgage capital to escalate beyond 100% of the original valuation of the mortgage property. That is because of capitalization of unpaid mortgage interest.

Our studies showed that for the 19-year period 1956 to 1974, the index of minimum wage rates moved from a base of 100 to 366.3, approximately 7.5% per annum compounded. An escalation factor of 3.5% per annum compounded is, therefore, well within prudent limits.

MORTGAGE PORTFOLIO ADMINISTRATION

Our bank was indeed fortunate that our mortgage portfolio accounting and administration were computerized from the start. At first the IBM service bureau was used. Now processing is being transferred to an in-house IBM System 34 unit. This has helped keep the head count within economical limits. Corporate support for the trust administration and mortgage banking unit is provided by the office of the general manager/managing director in the following areas:

- Market research and product development
- Corporate financial planning
- Advertising and business promotion
- Data processing
- Central financial accounting
- Negotiations with sources of long-term funding
- Centralised office services, such as word processing for letters of offer, securities and documentation, personnel employee benefits plans administration

THE FUTURE

We believe that the continued effectiveness of the bank in its role as an intermediary in the homeownership financing market will depend on our ability to make the transition from a predominantly mortgage agency to a more direct intermediary between long-term sources of funds and mortgage borrowers. We are satisfied that the policy of continuing product development will not only establish for us a comfortable niche in the market, but more significantly, enable us to achieve the objectives mandated in our charter of incorporation.

HOUSING PROGRAMS IN MEXICO

Adalberto Garcia R.

The purpose of this paper is to examine the Mexican experience in recent years in the financing and construction of housing for workers and the low-income population in general. A few conclusions will be drawn on the advantages and disadvantages of the different mechanisms used to promote housing construction and fulfill demand. The present document has been divided into various chapters in which we will discuss characteristics of the housing problem in Mexico, the magnitude and composition of the housing deficit, and the criteria for evaluating the housing problem, and the most important official housing programs established since the 1950's.

We will also discuss financial mechanisms, their operation and ways to expand their coverage to low-income groups, as well as study the problems of multipurpose housing policies, which must attempt to decrease housing deficits, create employment, control the urban environment, reduce the geographic concentration of population, etc. In the final section we will describe the most important conclusions and advance some general guidelines on financial operations in the field of housing.

We would like to note that the present paper does not have much that is original. Several housing surveys have been made in Mexico in recent years, which have improved the quality and scope of information available to assess the magnitude of the housing problem. Progress has been made in the design of new policies through the experience of institutions that have been working in the housing field. However, there is still much to be done in the study of the housing market and of production within the context of general development policies. In the developing countries housing is without doubt part of a more general economic problem. The scarcity and condition of housing is directly related to the level of income of its distribution. Housing plans are, in any case, limited in scope, so we should judge the success of housing policies in that light.

Adalberto Garcia R. is with the Center of Economic and Demographic Studies of the Colegio de México. He would like to thank Gustavo Garza and Marta Schteingart, authors of a recent paper on housing for their assistance and comments in the preparation of these notes.

1. The Housing Problem in Mexico

As is well known, the growth of population, the process of urbanization and the migration from rural to urban areas, among other factors, have made evident the enormous housing needs of developing countries. In Mexico, the housing problem first occurred in the capital city, where the concentration of population created urban crowding. During the 1940's the increase in rentals in some areas of Mexico City made it necessary to impose a rent freeze in those areas. It was also recognized that the housing problem would not be solved without a great effort to increase construction. And although the federal labor law mandated that companies supply housing to their employees, there was obvious non-compliance with this legislation. The country did not have the financial capacity nor the housing-production capacity to meet the needs.

Housing inventories in Mexico have grown at a slower pace than the population[1/] 5,300,000 units in 1950 to 6,400,000 in 1960 and to 8,300,000 in 1970. For 1980 a total of 12,000,000 units has been estimated. During the above mentioned years the number of people per dwelling has increased from 5.0 to 5.6 to 6.1, respectively. This last indicator shows an increase in the general housing deficit because the size of the family has remained more or less constant. Mexico is among the countries with the most number of people per room: 2.6, a level equal to that of India in 1960. For 1980 the number of people per dwelling has been estimated at 6.0, which is to say that the level is expected to remain approximately constant, taking into account some programs that will be reviewed in the next section. Of the total dwelling units in 1970, approximately 3,500,000 were in the urban environment, and the rest, 4,300,000 were in the rural areas. Even though migration has relocated housing needs and has created a typical picture of urban crowding, the rural housing deficit is the highest and its solution is the most costly.

The geographic distribution of the housing stock in Mexico is related to the structure of urban settlements, which in Mexico, as in almost all of Latin America, has undergone strong changes since the 1940's. The creation of new population centers in the northern region and the migration to the cities and border areas have altered the geographic pattern of housing shortages at a fast rate. Migration has sharply increased the housing deficit and reduced it in those areas that are stagnant.

Because housing is a basic, durable product, it must be analyzed differently from other goods. The deficit or shortage of housing is a standard indicator. For its evaluation we have classified the needs into three types: population, crowding and deterioration of the existing stock. Each of these three components has a subjective element, which is more evident in the components of crowding and deterioration.

The population deficit is obtained by dividing the increase in population by the average size of the family and then subtracting the number of dwellings produced during the period being measured. In this way the number of families without housing measures the number of dwellings that need to be built to absorb the growth in population. The underlying standard is that each family should have a home. The quantification of the demographic deficit can be broken down by types of family and types of housing in the existing inventory. Thus we can estimate costs and magnitudes with greater accuracy.

The crowding deficit refers to the number of dwellings needed to reduce the average number of individuals per unit to a conventional standard, once demographic needs have been determined. The deterioration component refers to the number of housing units necessary to replace or rebuild existing dwellings. In this case the standard is established in terms of quality and livability of the dwelling[2]. In designing housing plans the criteria used to evaluate the housing deficit is directly related to the question of economic equality goals. The indicators on crowding and quality of housing come from estimates of the standard of living of the families. The demands for housing reflected in the measurement of this deficit are implied and show not only how many families do not have access to the current housing market, but also the extent of effort necessary in the construction sector for financial programs to increase the real demand for housing.

Chart No. I includes some overall estimates of the housing deficit in Mexico. The estimates have been made with census and survey information on population and on housing stock and its characteristics. According to one of these estimates, the structure of the deficit in 1970 showed greater shortages in the rural areas than in the urban: 73% as opposed to 27% of the total deficit (see first item of Chart 1). According to another estimate, urban shortage was the greater (see second item of Chart 2). These discrepancies came about from the criteria applied in the evaluation of deterioration and crowding indicators and from applying different indicators to the urban and rural environment[3].

The most important component in the global deficit is that of deterioration (43%), followed by crowding (31%) and lastly by population (26%); however in the urban environment the population component is the most important (40%), and in the rural area it is deterioration (47%). These figures give us an idea of the regional differences in housing needs and of their effect on a program designed to solve them.

Due to the magnitude of the problems cited above, it is evident that the housing deficit can only be met through gradual and long-term plans. The investment in housing needed to meet the deficit entails a reallocation of investment priorities on a large scale. Yet, because of the size of the deficit and the characteristics of the rural population, housing plans usually conceived for urban wage earners fail to benefit the majority of the population. The rural population, in general, does not meet the characteristics demanded by housing programs for heads of family that work for an employer.

The share of income that families earmark for housing increases with the level of income. According to a survey of income and family expenditures in 1968, the percentage of expenditures for housing in Mexico varies from 11% for the lower-income levels to 21% for the highest income levels. Graph No. 1 shows these percentages by agricultural and nonagricultural sectors and demonstrates that the percentage for housing expenditures increases faster in high-income groups[4]. This finding shows that housing expenditures have a similar pattern to that of family savings in general, an important phenomenon, because it suggests the existence of a reserve of immobilized savings, which financial institutions could activate to expand their coverage. Those responsible for allocating housing programs often forget this fact and operate with fewer funds than those available. The point will be examined in greater detail in Section 3 of this document.

II. Official Housing Programs in Mexico

The effort to alleviate the housing problem in Mexico began on an important scale at the beginning of the 1960's with the establishment of the Financial Program for housing (1963)*. Previous housing programs had been occasional and limited in scope or initiated in bureaus where housing was a secondary matter. Among the institutions that built or promoted housing to a significant degree before this program were the Mexican Social Security Institute (Instituto Mexicano de Seguridad Social-IMSS), Mexican Petroleum (PEMEX), the Social Security Institute of State Workers (Instituto de Seguridad Social para los Trabajadores del Estado - ISSSTE), and the Industrial Complex of Sahagun City[5/]. In almost all cases the motivation to promote housing construction came from the constitutional provisions for housing for the working class and from the demographic pressure in Mexico City in particular. Several of these programs were to provide rental housing and only to a small degree housing for sale. Housing policies did not include reforms to the financial system that would eliminate barriers for mortgage financing for low income families.

The Financial Program for Housing started from a reform of the General Law of Credit Institutions, which eliminated ceilings for the placement and procurement of mortgage credits to orient the financing towards social-interest housing. Up to then, legislation had favored construction of the industrial infrastructure in communications and services and had paid little attention to the housing problem. Only one mortgage financial institution existed (the Banco Hipotecario Urbano y de Obras Publicas - BANHUOPSA) for the construction and promotion of housing for low income groups[6/]. The financial program acquired foreign credit initially for the creation of two trusts: The Housing Operating and Discount Fund (Fondo de Operación y Descuento Bancario para la Vivienda - FOVI) and the Housing Guaranty Fund (Fondo de Garantia y Apoyo a los Créditos para la Vivienda - FOGA). The first of these was intended to promote the financing of housing through the private banking system. The second was to guarantee the operations of the first trust and to reduce the risks of private savers. The FOVI also includes the design and specification of the types of housing to be promoted. The funds in these trusts come jointly from foreign loans, from the private sector and from the federal government.

*Before the 1960's the Bureau for Civil Pensions had been created (1925). From this came the Social Security Institute of State Workers (ISSSTE), the National Urban Mortgage and Public Works Bank (1935), and the National Institute for Housing (later INDECO,(1954)), which have carried out and promoted significant housing construction projects, mainly in urban areas. Some of the first studies on housing were done by the National Housing Institute (INV). (See COPEVI, volume III, Chart 7X).

Since its creation in 1963, the financial program has lent assistance for the construction of 200,000 housing units, and the mortgage funds available in the financial system have increased substantially through the issue of bonds and notes from private savers.[7]

From the end of the 1940's to the 1970's government efforts have built or helped build approxmiately 250,000 housing units, the majority of them during the 1960's. During the 1965-70 period the financial program promoted or built 90% of the total housing of the official programs. Aside from the greater availability of funds, this increase was due to a reduction in the rate of interest (from 15% for commercial financing to 9% for those in the program) and to the flexibility of the credit terms (terms and initial payment).

The financing of the funds allows a high degree of autonomy in expenditure decisions, terms of financing, selection of types of housing and methods of allocation. The affiliated workers are members of the fund and receive housing by a lottery system. Regional allocation of housing follows criteria of crowding, deterioration and demographic growth in the different areas of the country. Approximately 71% of the loans from the Instituto del Fondo Nacional de la Vivienda para los Trabajadores (INFONAVIT) have been earmarked for the construction of new housing, followed by expenditures for land (15%): the rest of the loans are for the other objectives mentioned above. Up to 1976 the three funds were able to promote a little over 150,000 housing units, the majority by the INFONAVIT (about 100,000 units). The housing fund of the ISSSTE (FOVISSSTE) promoted the construction of close to 34,000 housing units during the same period.[8]

The effect of these funds on total housing construction has been considerable. During the period from 1971 to 1975 the total number of dwellings constructed under government programs increased almost five times over the previous five years, from 43,000 to 212,000 dwellings. If we include the financial program for housing, the total constrction increased from 120,000 to 318,000 between 1965-70 and 1971-75. Because of the financing of these funds is cumulative, a high growth rate of constrction will doubtless be maintained. Nevertheless, the funds' efficacy in reducing the overall deficit of housing units continues to be low. They have had diverse problems in their operation, derived in part from inexperience in the management of operations of such magnitude, land tenure problems, local inflationary effects, and difficulties in design, construction and allocation. The payroll tax has also had an impact on the cost structure of the companies, as well as inflationary effects. Although there is a lack of empirical research, several authors suggest that payroll taxes have stopped the absorption of employment and stimulated the use of more labor-intensive production methods. This problem has not been satisfactorily documented, nor has it been clarified in economic theory, but it has been the object of long debates. The reduction in the rate of interest (to 4%), the extension of repayment terms (from ten to twenty years) and the elimination of the down payment have shown a tremendous demand potential and possibilities for expanding the market of these funds to lower income groups. The funds operate at present with incomes that are higher than the minimum wage. The majority of the funds of the previously mentioned organizations come, as expected from the urban sectors and only in a small measure (4%) from the primary or agricultural sector.

In spite of all these efforts, the government housing programs have not benefited the majority of the population. The Department of the Federal District is probably the only organization that has created a bureau for the promotion of housing for individuals that are not wage earners.* The programs for housing for the working class cannot, in principle, serve nonwage earners or those with income lower than the minimum wage. In Mexico the enormous inequality of income means that close to 70% of the population cannot be served by these programs. This is where the housing programs come up against the fundamental problem of income level. Among the non-wage-earning population in the urban centers, serious problems of land tenure exist (in squatter areas), as well as a lack of basic services, a lack of sanitary services, and other problems, so that the housing problem is one of many others. Moreover, because of the low level of income there are no family savings that these programs could "liberate". To attack these problems, mainly in Mexico City, home improvement programs were established and an agency for the standardization of property lots (FIDEURBE) was created. Within INDECO (the National Institute for Community and Housing Development, formerly the National Institute for Housing) a program called "Housing Action" was initiated; another was established for the provision of services, which has had a minor impact.**

* The General Bureau for housing (DGHP) was established in the 1930's. It is designed to work with marginal population groups in Mexico City (gardeners, street vendors, etc.) and to solve the problems of squatters in the so-called "lost cities".

** Within INDECO several subprograms exist to support housing for small farmers and for self-help construction. These, too, have had little impact.

III. Financing of Housing

In this chapter we will present a few ideas on the scope and manipulation of financial mechanisms[9], suggested by various authors and in particular in a study on Mexico.

The most important obstacle for middle-income groups in the promotion of housing is, without doubt, the financial problem. These groups have funds of some significance that remain immobilized because of the rigidity of the standard financing terms. The construction of housing requires a commitment of capital for a very long term compared with other investment alternatives. This tends to pressure the rates of interest and the amount of the down payments to such a degree that commercial credit channels are open only to a small minority.

The most important considerations for the financial programs are the recovery of funds and the use of family savings. Credit for high-income groups tends to substitute the financial efforts that families would make anyway. On the other hand, credit for low-income groups implies very low recovery rates that limit the use of the funds. We find in many cases that housing programs allocate units to income groups in such a way that families actually reduce their expenditure for housing. Thus, recovery of funds is reduced along with the total amount of the family effort. Often monthly payments are structured in accordance with current income, with no adjustment for later increases. As income improves, both the share earmarked for housing and the rate of recovery of the funds are reduced. Because of principles of social justice, it is often said that priorities should favor families at the lowest income level. Nevertheless, this procedure has the disadvantage of rapidly exhausting already limited funds. The number of beneficiaries in any program is in a direct ratio to the recovery of funds; a program can expand its outreach to low-income groups as the recovery of housing funds allocated to high-income groups increases. The experience of several programs in Mexico and in other countries shows that this procedure gives better results in the long term. Monthly payments can be fixed, as is done by INFONAVIT and other institutions in Mexico, in accordance with a percentage of the family income, thus increasing the recovery with the income.[10]

A study done in Mexico on financing terms finds that through a system of progressive payments it is possible to lower the minimum income level that has access to housing, or to increase the number of housing units to be financed with the same amount of capital.[11] According to the estimates of this study, a system of progressive payments would increase the number of participating families by 1,000,000 for the year studied.[12] As mentioned, the financial program followed this procedure. We should recall that studies on family income and expenditures have shown the percentage of income for housing to increase as income increases. The problem is how to lower the cost of housing (and probably its quality) to a smaller percentage of the income at the different levels. The more we manage to induce higher-income families to buy less costly housing, the greater will be the margin to increase the speed of recovery. This is possible in general within the levels of income that do not have access to commercial financing. We have also noted that the elasticity of income in monthly payments is sufficiently high and grows with the level of income. An increase in income will produce a proportionately greater increase in the monthly payment.

It is worth stressing that the range of the financial reforms is limited. The expansion of the capital base and the terms of payment are not nearly enough to eliminate the deficit. Measures to find housing for low-income levels of the population cannot succeed without policies for growth and income distribution. In this respect housing policies can and sometimes are used as an instrument of a more general economic policy. Nevertheless, practically none of the official programs of the Mexican government have included housing construction within their operations. The majority of these programs subcontract construction with private companies, although they do set forth standards of design, quality and other technical and architectural aspects of the works. In programs of great magnitude official institutions could absorb the profits from construction and take advantage of important economies of scale. The expansion of housing programs to include construction constitutes a problem of its own; there are few studies on how to do it.

IV. Other Objectives of Housing Plans and Programs

Housing programs, from the point of view of economic policy in general, are an important part of mechanisms for expenditures and for the control of effective demand. In this sense public expenditures and public works belong in an analysis of macroeconomic and stabilization policies. This discussion has led to many debates and divisions of opinion in economic theory since Keynes. Housing programs often involve several objectives, sometimes of a conflicting nature. The Mexican programs and in particular the funds were established to create employment, prepare urban development programs, increase the internal demand for technology, control the cost of land, etc.

The goal of creating employment in particular is in conflict with that of building housing, as many subcontracting businesses cannot change their methods of construction to meet employment standards. To conciliate the two objectives, therefore, it is necessary to redesign the buildings. On the other hand, some large works create a shortage of labor in some phases of construction and must use mechanization as the only solution to accelerate completion. To give a better idea of the content of employment in housing in Mexico, we present some estimates obtained in a recent study.[13/]

In Mexico low-cost single-family and multifamily housing generate approximately one and 1.7 man years of labor, respectively. This demand is distributed into about 61% direct employment and 39% indirect or as components of the input. As the price and quality of housing increases, the overall demand for employment increases by unit of cost and the percentage of direct employment decreases.[14/]

EMPLOYMENT BY HOUSING UNIT FOR 1970

	lot included	no lot	cost of lot (%)
low cost single family	.76	.75	41
low cost multifamily	1.72	1.70	12

Note: Employment figures are in man years. Figures for cost of lot refer to the percentage of total cost of housing.

The figures in the preceding table show employment demand and the percentage of the cost of land in housing. From the figures we can see clearly that the lot increases the cost of single-family housing substantially but that the total demand for employment remains practically the same. We also note that the cost of the lot decreases to about a fourth of the total cost in multifamily units. Therefore, sharing the cost of land can significantly reduce the price of the housing units without sacrificing the creation of employment.

Low-cost housing (single-family as well as multifamily) involves a greater demand for employment in comparison with housing at a higher cost. Single family housing represents a better alternative from a technological point of view, as in general it does not use mechanized construction methods. Multifamily housing production processes are in general capital-intensive.[15]

Housing construction, like any other sector in which private investments are made, has multiplier effects on the economy that should be evaluated. The usual multiplier effect on the value added in Mexico has been estimated to be approximately 1: an increase of 1,000,000 pesos in construction increases the value added total by the same amount. This figure is much less than what is obtained from econometric models of the general multiplier of expenditures in an economy. The effect of expenditures in housing on the value added changes little with regards to the type of housing, and its direct effect represents the greatest percentage (73%). Conversely, the effect on the value added has several "spin-offs", of which the most important are imports, also an important effect on investment.[16]

The overall effect of expenditures in housing on investment is approximately 2.4, which means that the economy as a whole must make an additional investment of 140%. This figure does not have the usual interpretation of a critical expenditure; rather, it represents a real demand for capital goods estimated on the assumption that there is no idle capacity in the economy. The effect on investment shows little variation as to type of housing, and its most important component is direct investment, which represents about 60% of the total induced investment. This last figure shows that the greatest investment effort must be made by the construction sector itself.

The housing construction industry has an import component of considerable magnitude. According to the same study from which the previous estimates have been taken, expenditures in housing represent an import demand of .28 per unit of expenditure. For each peso spent in housing it is necessary to import goods for .28 pesos. The majority of induced imports are of capital goods -- 60% of the total -- and their direct and indirect components are approximately equal (50%).

V. Summary

In the previous pages we have briefly described housing programs in Mexico and some of their most important characteristics. The description has of necessity left out many important aspects of Mexican housing problems. Nevertheless, it is possible to draw some conclusions from this material and from other experiences on the operation and management of housing policies.

The most important fact to bear in mind is that the solution to the housing problem is of a larger scope than that of a policy for a particular housing sector, both from the financial as well as the construction point of view. The level of income is so low that no housing program can pretend to resolve deficits of the magnitude apparent in Mexico and in other developing countries. Housing is one of the many problems of underdevelopment. The length of time needed to arrive at a solution to the housing problem is therefore equal to the difficulties in achieving an increase of income and a reduction of economic inequality.

Housing programs demand significant changes in the financial system to reach only a fraction of the labor force. The initial problem of financial programs is of course that of capitalization. The administrative problem lies in finding adequate formulas to balance the recovery of funds and the substitution of funds, as mentioned in Section III. Although we cannot extrapolate these experiences directly to other countries, financing policies that maintain or increase the percentage of family expenditures for housing seem to be the most effective. This point is difficult to understand because of the tendency to look on programs as measures to provide cheap housing. To draw up financial plans, it is necessary to establish a strategy for the distribution of housing among the different income groups through the control of rates of interest, terms, down-payments and cost of housing. Using the payment capacity of high-income groups to refinance housing for low-income groups must be pursued.

Given the cost of land, housing plans require careful consideration of the effect of construction works on prices. Land purchase policies are among the most difficult to administer because of the difficulty of balancing the amount of funds available for construction with a provision for speculative increases in the price of land.[17] Nevertheless, the acquisition of land can be planned to reduce the overall cost of housing and increase the profitability of the funds. The purchase of lower-cost lots in the outskirts of the city, for instance, sometimes results in a higher cost of services and creates difficulties because the housing projects are not close enough to places of employment.

Allocation policies in housing programs for blue-collar workers are of great importance, especially when there are pressures from different union organizations to obtain housing for their members. There is no obvious or technically sound formula in this regard except to make maximum use of available resources. Some institutions haveestablished allocation systems proportional to the financial contribution of the different trade unions. Nevertheless, this type of criterion may favor high-wage earners who have access to commercial credit for housing. There are also pressures to increase the quality and the price of housing, which would reduce the number of beneficiaries unless the high-income wage earners could substantially increase their expenditure in housing. Housing policies, we must insist, should avoid subsidizing family income and should only support housing expenditures.

Financial operations, as well as housing allocation, technical design and land acquisition, require prior study of the populations involved. Many of the difficulties found in housing programs, and some of the mistakes made, come from inadequate planning and research.

Housing plans that include the physical construction of the units have a greater potential for reducing cost, even though the management and planning efforts required are more complicated. However, the creation of construction companies for these programs demands a greater capitalization. The advantages of including construction in the programs are therefore apparent only on a long-term basis. On the other hand, the difficulty of financing new construction companies within the programs can be reduced by using intensive labor techniques, special design and low-cost materials. These decisions require a case-by-case, detailed evaluation. Some Mexican institutions began their activities with construction plans and support of the production of building materials. However, they encountered organizational difficulties and delays in execution that forced them to abandon their initial plans.

Trade union funds can also be used to mobilize private capital in operations similar to that of the housing finance program described in Section II. This type of operation may require changes in financial and fiscal legislation.

Another factor to consider in housing plans and programs is the capacity of the construction sector and the way in which housing expenditures affect the rest of the economy. In this regard the effect of private expenditures on import is especially important, as is the necessity to control the inflationary effect of expenditures in housing, which are often located in areas with limited production capacity. The increase in production costs that arises from concentrating projects has had a significant impact in Mexico since the beginning of the funds, in particular on the regional supply of steel, cement, brick and other materials. However, these matters can only be controlled by researching each case.

CHART 1

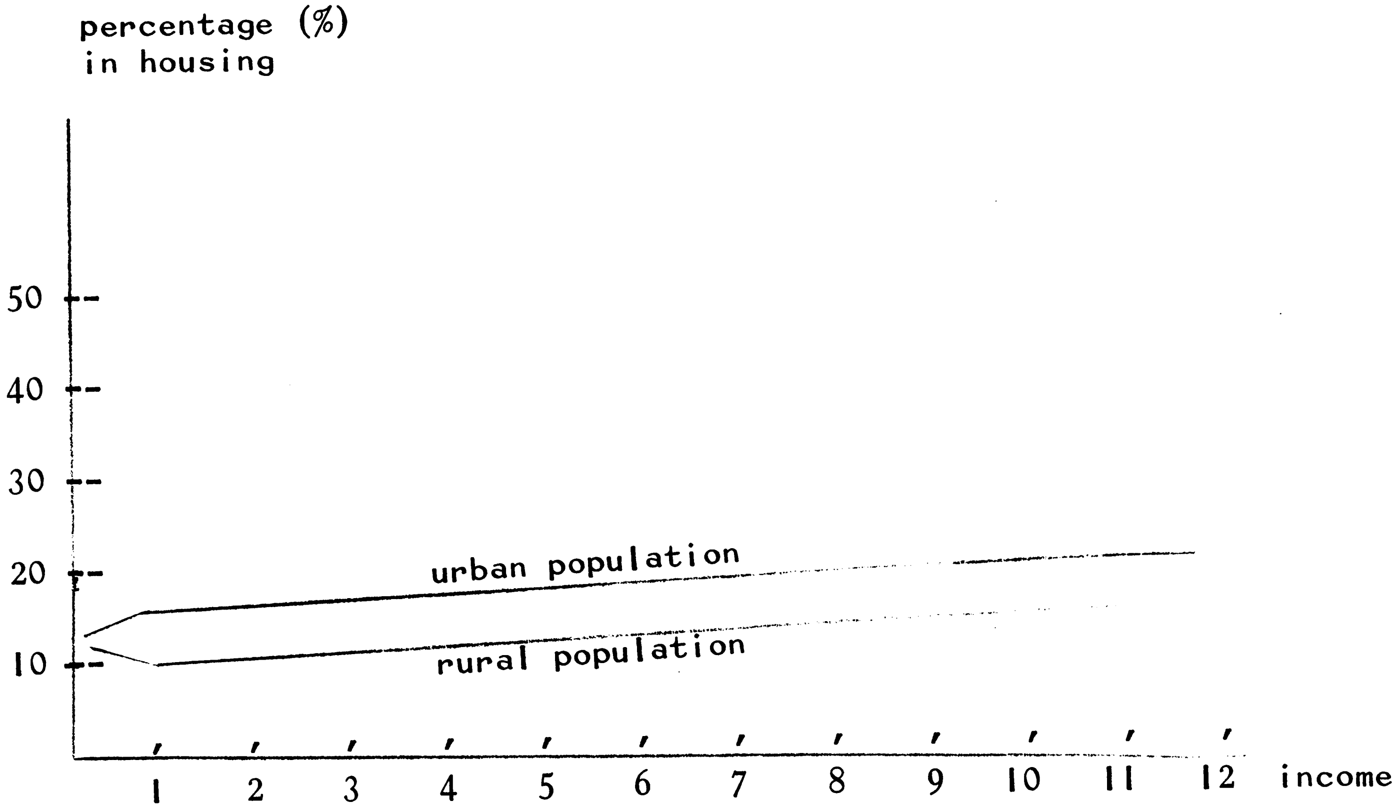
MEXICO: Several estimates of the housing deficit in 1970
(millions of units)

estimated by	total	urban	rural
This study	5.8	1.6	4.2
J. Puente Leyva	4.0	2.4	1.6
E. Ramirez Solano	-	1.9	-
Jesus Silva Herzog	2.3	-	-
Bureau of the Secretary to the President	2.3	-	-

Source: Jesus Puente Leyva, "The Housing Problem," A Profile of Mexico in 1980, (Volume 2), Century XXI Editors, Mexico, 1972, p. 257; Ernesto Ramirez Solano, Financial Program to Resolve the Problem of Social Interest Housing, Seventh Meeting of Central Bank Experts of the American Continent, Rio de Janeiro, Brazil, October 1963; Jesus Silva Herzog, The Problem of Housing in Mexico, First Seminar on the Study of the Housing Problems in Mexico, March 1973; Secretariat of the Presidency, National Housing Program, Mexico, 1970 (mimeographed), quoted in Victor L. Urquidi and A. G. Rocha, "Introduction," in Ch. Araud *et al*, The Construction of Housing and Employment in Mexico, College of Mexico, Mexico, 1975.

Graph 1

Expenditures on Housing
as a Percent of Income,
Mexico, 1968



Notes and References

1/ These figures on housing stock and deficit have been taken from G. Garza and M. Schteingart, The Housing Problem in Mexico: The Housing Action of the State (not yet in print), charts 2, 4 and 5, College of Mexico, Mexico, 1978.

2/ These definitions of deficit appear in several studies. There is a more detailed discussion of deficit factors in Odilia Suarez, "The Role of the Public Sector; Possibilities and Alternatives", The Housing Problem in Low Income Sectors, OAS/UIA, Mexico, 1974.

3/ In the Garza and Schteingart estimates, paper quoted above, the same standards have been applied for the rural and urban environments. The data in Chart I have been taken directly from the above authors.

4/ Graph No. I was prepared from Bank of Mexico data, Income Distribution in Mexico, Survey on Family Income and Expenditures, Mexico, 1968; FCE, 1974, table 2; quoted by Garza and Schteingart, Table 18.

5/ In Housing and Population Operations Center, A.C., (COPEVI), Survey on Housing, Volume 3, Mexico, 1977, there is a description and detailed analysis of the operation of housing institutions and plans. Also see Garza and Schteingart, above quoted paper, Chapter III.

6/ Official

7/ For these data and figures on construction, see Ministry of Finance and Ministry of Commerce, An Evaluation of Housing Policy 1971-1976 and Recommendations for Future Years, Mexico, 1976. See also COPEVI, quotes on pages 81-119.

8/ This information appears in detail in COPEVI, paper quoted by Garza and Schteingart, paper quoted above, passim.

9/ See W.P. Strassman, "Employment and Financial Alternatives in Mexican Housing", in Ch. Araud et al, Housing Construction and Employment in Mexico, College of Mexico, 1975, pp. 335-349

10/ The percentages of income for wage earners between one and 2.5 minimum wages is 13% and 20% for greater income.

11/ W. P. Strassman, paper quoted above.

12/ 1971

13/ See Ch. Araud and Santiago Rincon, "Direct Effect on Employment of Eight Typical Types of Construction of Housing in Mexico,", in Ch. Araud et al. Paper quoted above.

14/ See Ch. Araud, paper quoted above, pp. 124 - 128.

15/ See G. K. Boon, "Added Employment by Changes in Technology Levels and Production Levels in Housing in Mexico", in Ch. Araud et al, paper quoted above, charts CB-11 -- CB-19. On the substitution of labor by capital in the construction industry in Mexico, see W. P. Strassman, "The Substitution of Labor by Goods or Capital in Construction in Mexico," and Ch. Araud, et al, paper quoted above. This author finds a substantial elasticity of the substitution of labor by capital in wage changes.

16/ These estimates were made by G. K. Boon, quoted above. In the National Chamber of the Construction Industry, Twenty-five Years of the Mexican Construction Industry, Mexico 1978, is recent information on the general development of the industry.

17/ In some suggestions for economic policy, measures have been proposed to capture the added value of land and works as part of the monthly payments of the beneficiaries.

AVAILABILITY OF COMMERCIAL BANK FUNDS: OUTLOOK FOR LATIN AMERICA

Richard Vallely

This is a brief analysis of the general attitude of private banking toward the future of Latin American and Caribbean credits and loans as well as the types of loans that commercial banks find attractive and the terms and conditions that can be offered to private banks, including workers' banks.

Commercial banks have a very positive attitude toward making loans in the hemisphere. This attitude is based on the fact that the governments of those countries are on the whole considered efficient. This efficiency becomes even more obvious in view of the results of the energy crisis, which led many people to predict a worldwide catastrophe barely four years ago.

As a result, the long desired resurgence of Latin America and the Caribbean is now taking hold. An yet, it is necessary to be careful when generalizing about Latin America because of the differences, some of them dramatic, that exist among the countries of the continent: Some countries are at a great disadvantage because of a lack of natural resources; others have almost everything they need for their development.

However, any enthusiasm must be viewed in the light of the cost of money. Interest rates will continue to rise during the summer of 1979, and it is possible that the prime interest rate in the United States will reach approximately 11.5%. Once it reaches this point, it will decline slowly, perhaps not returning to current levels until the end of 1980. From then on, it will reflect the monetary and fiscal policies followed by the United States government.

Turning to the matter of loans, What type of loan is attractive to commercial banks? Rather than give descriptions or examples, it is better to explain the way commercial banks evaluate loan requests to see whether they are acceptable for a bank's portfolio. Once this process is understood, it will be easier to see when a loan is attractive to a commercial bank.

It is important to recognize that these commercial banks are not development banks; this does not mean, however, that they are not interested in development. On the contrary, like any other enterprise, they are more prosperous in a climate of

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Richard Valelly is a Vice President of Citibank, who has been stationed in Latin America development and increasing economic activity. The difference is that a development bank has long-term resources generally not available to commercial banks, which depend on their customers' deposits. Therefore, a commercial bank must constantly maintain adequate liquidity to be able to cover the needs of its depositors and shareholders. As a result, a commercial bank finds loans that directly generate cash for subsequent repayment much more attractive than other loans. In other words, commercial banks analyze the purpose of a loan to assure that the funds will be used for projects yielding an obvious and direct source of income.

The most attractive loans for commercial banks are those financed by trade, letters of credit, and self-liquidating loans (a loan to purchase merchandise that will then be sold to distributors for funds to repay the bank or the so-called project loan, intended to increase production directly through factory expansion, etc.)

Loans not generally geared to production are not considered to be within the commercial bank's sphere. Though such loans are not unimportant, it is a fact that their sources of payment are not as clearly defined as in the case of a loan promoting commercial activity or production in general. An example of this type of loan is one to improve a system of roads. Obviously, transportation will be improved, but the bank must ask how funds will be generated to repy the loan. In this case, it would perhaps be through an increase in the level of activity and a corresponding increase in taxes -- a somewhat nebulous source of repayment.

Therefore, for a commercial bank, the most important factors are the purpose of the loan as well as a clear understanding of the source of the funds to repay the loan. Cash flows, projected balance-sheet figures and profit and loss statements are also considered very carefully. These documents,required by all commercial banks for any loans with a term of more than one year, undergo a serious and detailed analysis. For most loan requests a number of assumptions are made and carefully considered in the evaluation. Commercial banks want to be certain that adequate measures have been taken to deal with any emergency should those assumptions prove false.

Once the objective and the manner of payment are clear, a commercial bank will study the managerial skills of its customer - his technical and administrative ability. Is the administrative staff experienced? Has it gone through periods of both adversity and prosperity? What is the general atmosphere? Does the project fit well into this framework? And so forth.

And now, what can the commercial bank do to help workers' banks?

First, workers' banks can apply for direct loans from commercial banks. For a direct loan, the commercial bank will want to study the quality of the portfolio of the workers' bank. To show the quality of its portfolio, the workers' bank will have to take into account the process described above. Other important factors are the bank's liquidity, its basic capital, it profits, and its administrative capabilities.

In addition to receiving direct loans, the workers' bank could serve as a sort of broker. It could identify projects and direct commercial banks toward the financing, using, if necessary, its own guarantees and at times obtaining government guarantees. A large-scale project may qualify for a direct government loan to be channeled through the workers' bank.

One factor to bear in mind in any commercial transaction involving a foreign bank is the country's exchange rate. If payments made by the borrower are in local currency, the intermediary must have easy access to foreign exchange so the bank can be repaid in the same currency in which the loan was made. This implies an analysis of the country's international situation, its levels of foreign and domestic debt, the growth rates of its domestic product, its rate of inflation, the fluctuations of its exchange rate, etc.

Finally, commercial banks must take into account the competence of the economic and political teams governing the country in which the loan is made. To return to what I said earlier, the governments of Latin American countries and the Caribbean have shown during the last few years that they are eminently qualified and fully deserve the confidence of their citizens and the international community.

FOREIGN EXCHANGE RISKS AND OTHER TOPICS

C. Allen Ellis

What techniques can be used by workers' banks to protect themselves from the risks of exchange rate fluctuations when they seek financing outside of their own countries to obtain additional financial resources? Outside of the political route there is no means that I can recommend from my experience as a financial consultant and banker, to give proper and complete protection a sound banking institution should have against the considerable risks of exchange rate fluctuations given the important responsibilities such an institution has to its worker members and depositors.

First I must describe the nature of the risks assumed by a workers' bank that goes abroad and assumes the risk of borrowing in a currency stronger than its own. In the inflationary world in which we live, currency stronger than one's own has lost its purchasing power at a lesser rate than has the debtor's local currency. Slowly and on a regular basis (if there are frequent adjustments in the exchange rates of the two currencies) or with major changes (if the political and financial authorities of a country seek to avoid a continuing adjustment process), the parities between the two currencies inevitably have to be changed. This occurs if the home country of the workers' institution depends for its development on imports of raw materials, semimanufactured products or capital goods, and if its inflation rate is greater than that of the country in whose currency the debt is incurred.

The result for the debtor institution is that when its currency is devalued after the loan is made, it has to find additional amounts of its currency to pay its debt. And this is generally very difficult -- in many cases impossible -- for a bank that operates within its country in local currency and with fixed obligations. The end result is major losses for the institution, which must be borne by its members and possibly its depositors.

The degree of risk can be intellectually perceived simply by numerical computations. But I have seen in Chile, Argentina, Peru, Mexico, Colombia and even in my country, the United States, that the magnitude of the unfavorable changes that occur are usually much greater than what one has foreseen. For example,

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the Housing Guaranty Program of the Agency for International Development (A.I.D.) of the U.S. government, even with the cold analysis of the guarantor, was unable to foresee the severity of the exchange losses incurred in the past ten years in various countries where it guaranteed payments of mortgage financing for housing.

I mentioned earlier that the only way the exchange risk of a borrower could be avoided was the political route. To be precise, if a workers' bank has sufficient standing with the highest political and financial authorities -- and given the very important social and economic contributions your institutions are capable of making, you probably have this political power -- it should seek the guaranty of payment from its central bank, development bank or national financing institution. With this guaranty the exchange risk would be insured against by official institution. They have their own sources of foreign exchange, or they can obtain them in the form of international reserves or international loans based on their country's creditworthiness. Furthermore, the public sector has considerably more capabilities, experience and sources of foreign exchange than a workers' bank that is just beginning its activities in the international money and capital markets.

As a less desirable alternative to a guaranty of payment, a workers' bank going abroad for part of its funds could ask its central bank or treasury to provide, prior to repayment dates, the necessary foreign exchange. A maximum effort should be made to have the foreign exchange provided at the exchange rate in effect on the date of the loan. If this is accomplished, the exchange risk would be borne not by the borrowing workers'bank but by the public entity that is most knowledgeable in this area and that is responsible for confronting the exchange risks implicit in the financial policies of its country. However, central banks are generally reluctant to accept these requests.

If the financial authorities of a country bear the exchange risks of an international loan by a workers' bank, or, more importantly, if the bank has not been able to transfer the exchange risk to agencies of the public sector, the funds obtained should always be used following these principles.

1. The proceeds should be used only for purposes that can generate sufficient income for repayment on their own, with an additional collateral margin over the amounts of local currency necessary to pay the original debt.

2. There should be a premium over the interest rate of the loan to create a reserve fund and give an additional element of protection to cover any unexpected changes that might occur in exchange parities.

3. Foreign proceeds should be used only in local loans denominated in the currency originally borrowed, or with an adjustment clause that will follow the rate of the local currency in relation to that borrowed or the inflation rate in that particular country.

Having emphasized the considerable risks involved for your institutions in international operations, I would like to briefly comment on the sources of financing that your institutions could consider, following the principles for the use of funds indicated above.

The first (which I mentioned without consultation and without authorization of AIFLD or of representatives of unions in my country or other countries that represent possible sources of financing) is the unions themselves, especially those in the same or similar trades and crafts of your members that have pension funds or bank sources they could tap to make loans to their brothers abroad. Obviously, and I continue to emphasize this point, the use of all external funds should be subject to the strongest protection and guarantees available covering exchange risks.

The second source is international credit institutions, such as the World Bank, the Inter-American Development Bank, and the Central American Bank for Economic integration. Their loans generally have longer maturities and are at fixed and relatively low interest rates, which are especially valuable in these inflationary times.

Third, the international private banks, especially the large commercial banks in New York, London, Frankfurt, Tokyo and other financial centers. The maturities offered by these lenders are shorter than those of the international agencies, and their floating interest rates can be dangerous for borrowers.

Finally, there are institutional investors, especially a small number of insurance companies in the United States. This is a small market for loans to developing countries. There are only a few countries -- Mexico, for example -- whose public agencies have occasionally been able to avail themselves of this market.

My remarks probably seem to you to be those of a particularly conservative financier. If I have created this impression, it is the impression I have sought, since external financing for institutions such as yours involves dangers whose gravity one can appreciate only when they are experienced. Furthermore, if one of your banks decides to assume these risks and does not follow conservative banking principles, its reputation could suffer and its members and possibly depositors could incur financial losses. This would limit and possibly even close the international money or capital markets to other workers' banks that are prepared to follow conservative policies in their international transactions.

INTER-AMERICAN DEVELOPMENT BANK: LOAN OPERATIONS

Julio Huertematte

It is important that the workers' banks establish direct contact with the Inter-American Development Bank. Such contact can be made in an efficient manner through the field offices of the IDB in the different Latin American countries. The IDB field offices have technical personnel able to give information and advice to any applicant about technical cooperation or on supplementary financing for the execution of specific projects.

The main purpose of the Inter-American Development Bank, as it is for workers' banks, is to provide services to its members. In the case of workers' banks the stockholders are mainly the workers themselves, who are in turn provided with banking services. Similarly, the IDB is a bank of governments that contributes to the economic and social development process of the member Latin American countries.

The agreement establishing the Inter-American Development Bank establishes that every operation financed by the bank have the approval of the appropriate member governments. From this we can see that the workers' banks must establish contact with their governments to obtain from them a statement as to the priority of the projects they propose to carry out.

The information that the borrower must provide on requesting a loan is of the utmost importance. Consequently, to assist potential clients in the preparation of studies that will support loan applications, the IDB has prepared manuals that not only facilitate the work of the potential borrowers but also simplify and accelerate the technical and economic financial analysis the IDB must make. These manuals describe in detail the preparation of loan applications according to the type of project and may be obtained at the IDB's field offices in each country. The field office staff is always available to help loan applicants prepare the information to be submitted to the IDB.

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The IDB is different from commercial banks because its purpose is to finance development projects. Due to the scope of the concept of "development", the IDB saw from the beginning that it was impossible to meet directly all of the loan applications it received from small entrepreneurs and farmers without incurring prohibitive operational costs. To overcome these difficulties, the so-called global loan programs were established, in which loans are granted to financial institutions for development in the Latin American countries; the institutions, acting as intermediaries, relend the money to farmers and businessmen along certain previously approved parameters and guidelines. The majority of these global credit programs have been carried out through government-sponsored banks and financial institutions.

In countries with a more developed banking system, like Mexico, the bank operates through trust funds that are part of the commercial banking system, including the workers' banks. This system has operated in the following manner: The IDB grants a global loan to a trust created by the national government (Development and Guaranty Fund to Medium and Small Industry -- FOGAIN -- and Special Fund for Agricultural Financing -- FEFA) which, acting as a reserve bank, relends to commercial banks, and these in turn relend to the small and medium farmers and entrepreneurs.

As an international bank, the IDB has certain limitations as to the type of financing it may grant. International development banking was originally created to mobilize resources beyond the area of operation, that is to say, to be a channel through which foreign exchange could finance specific projects. A series of rules were established initially because it was intended that the IDB only finance direct costs of specific projects with foreign exchange, without substituting funds already existing in the member country. It was agreed, therefore, that the IDB would not finance working capital requirements of the projects under consideration because such financing was an important activity of the commercial banking system. It was in this framework that the IDB developed its programs for financing small and medium-size industry and agriculture. Its loans were earmarked for the purchase of fixed assets and not for working capital.

However, it was soon obvious that there was a need to change these limitations, as they obstructed the efforts to lend financial assistance to small and medium-size businesses, especially in the agricultural field because the needs of the small and medium farmer are not oriented towards the concept of investment but towards production credits. In this fashion the IDB began to introduce exceptions to the general policy. First, it began to finance some of the local costs of agricultural projects with foreign exchange. Then, short-term requirements for crops were financed, particularly when there was a need to use foreign exchange to cover expenditures for pesticides, fertilizers, etc. This allowed the IDB to reach the small and medium-size farmers in such a way that in the last five years the number of operations benefiting lower-income groups in Latin America has multiplied. In 1977, 43% of the loans of the IDB financed projects for the lowest-income sectors of the member countries through the granting of direct agricultural credits, infrastructure projects for rural sectors, investments in urban development, services to benefit poor sectors, and other projects that generate employment for the poor.

Notwithstanding the achievements obtained through the liberalization of credit policy, the financial assistance of the IDB has not yet been able to reach all lower-income groups to a significant degree. This situation will not prevail for long, as the IDB continues its efforts to create new mechanisms that will allow an increase in the volume of technical and economic assistance to such groups. An example is the pilot program for small projects that has recently been established.

INTER-AMERICAN DEVELOPMENT BANK: SMALL PROJECTS PROGRAM

Beatriz Harretche

The Inter-American Development Bank has attempted to realize its basic founding objective, that is, to promote the economic and social development of its member countries in Latin America. Through various policy changes, it has gradually been able to reach the lower-income sectors. Although these policy changes have enabled the bank's agricultural and global loans to reach a wider and wider layer of the economic population, a broad group has been left on the fringes of the bank's activity.

Toward the end of last year the bank considered defining a program that, while fulfilling the goal of reaching those layers that were untouched by its operations, would be part of an international banking unit, with commitments made on the international markets and with the image and prestige that are at the basis of its ability to function. It was necessary to reconcile these factors with a demand for credit, which the bank wished to fulfill and had perceived during its years of activity in Latin America. In addition, the bank had been able to identify clearly the major limitations to realizing this objective. They could be reduced to four.

First, it was impossible to provide working capital to small industry and cottage industry, despite its great importance, because they generally operate with very little investment. Some industries with $3,000 investment provide work for 250 persons. These cases were inaccessible to the bank because its global industrial loans do not include loans for working capital.

The second limitation to financing these small projects was the lack of guarantees in both the industrial and agricultural sectors. The national development banks and the financial development institutions require certain real guarantees for subloans. In most cases the groups we are referring to lack guarantees because they lack fixed assets; their only capital is their labor.

A third restriction was the people's lack of experience. Low-income groups have generally not had access to credit of any kind or, if they have, it has been usurious credit, which

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is handled through procedures that are alien to those of banks. Therefore, they could not complete any of the formalities, such as filling out applications, submitting information and certificates, etc. The personal identification of beneficiaries can even be extremely difficult, especially for indigenous populations.

The bank personnel, in traveling through various countries, have tried to encourage some small manufacturers to approach the development institution windows, which the bank funds with global credits, and often the answer has been: "By no means, not with all the paperwork that has to be done." Lack of knowledge leads to hesitation and even to rebellion against the fact that getting a loan obliges them to fulfill certain bureaucratic requirements.

The last restriction in reaching low-income groups is that the bank loans are given in dollar equivalents, even when the disbursements are made in local currency. Therefore, someone has to be responsible for maintaining the value of the currency. When the bank works with the public sector or with private institutions with high financial solvency, there is no problem in this regard. However, in situations in which the value of the currency increases the cost of a project substantially, it becomes difficult or even impossible for the borrower -- in this case low-income groups or associations of these groups, such as cooperatives -- to meet their obligations. This is without a doubt the most serious restriction for a banking institution.

When the bank's new pilot program is described, many people react by asking: "Isn't the bank going to maintain the value of the currency?" or "Isn't the bank going to require guarantees?" It becomes necessary to explain that, for the first time, the IDB is going to place its faith in institutions that it will study very carefully but from whom it is not going to require guarantees because it knows that they do not have any, and it knows moreover that if it does not break this circle, these institutions are never going to be able to become clients of the conventional banks.

This is a pilot project representing an important commitment; it will have to demonstrate that in an international body special efforts can be made so that certain strata of the economy who do not have access to credit can obtain it through their prior experience in a program of this type. During this program people will be going through the steps that are necessary to learn how to handle credit.

The program is geared to all countries of Latin America, without exception, as long as those serving as intermediaries as well as those who are to be the final beneficiaries of the project being financed meet certain basic eligibility requirements.

Since with this program the IDB intends to reach certain groups whose financing needs are small and it would not be possible to make loans of $6,000 to $8,000 or $10,000 U.S. from Washington, it was decided to work through intermediary institutions, which would be in charge of distributing the resources. These intermediaries can be institutions in the private or public sector.

The private institutions have to be nonprofit institutions, legally registered in their countries. Their main objectives should be to promote groups that are not yet incorporated into the economy. We understand that among these intermediary institutions that are motivated and ready to serve there are some that do not have the necessary administrative strength to implement global programs for the distribution of resources to lower-income groups. Our program, however, has made provisions to strengthen these institutions by providing them with nonreimbursable technical cooperation either prior to or during the loan program.

In its regular portfolio the bank requires that the government give each project it finances priority and that the project be officially presented through regular government channels. With this program, however, all that will be required is that the government not be opposed to the project. The government viewpoint will be obtained through the bank's representatives, who will approach the authorities to get this acquiescence.

As to the eligibility of the potential final beneficiaries, preference will be given to groups that do not have access to other forms of credit under nomal conditions, that is, conditions offered by the country's commercial banks or development banks.

This program is an additional effort made by the bank to improve the living conditions of the marginal groups of Latin America and the Caribbean. For this reason it would be preferable that the bulk of the program's resources be earmarked for productive or social projects, which are certain to generate the resources that will enable these groups to meet their financial obligations.

The basic approach, then, is toward productive or social projects with a productive impact. For example, improving housing could aid craft operations, since the craftsman usually works at home and the home, therefore, has a direct bearing on the product of his labor. In some places women do exquisite embroidery work on good quality fabrics, and this work deteriorates because of the conditions in the home. Improving housing for these craftswomen has a twofold impact: improving their living conditions and their system of production.

During this stage the program will be carried out experimentally. The field offices of the countries have been informed of the general framework, and they are familiar with necessary procedures and requirements. It is important that the projects be presented through the IDB field offices. They can provide not only guidance but also assistance in completing the information needed to evaluate the projects.

Because of its size, the program cannot be handled through the conventional bank procedures, which consist of sending orientation, study and negotiation missions, etc. This program will have to be flexible and not entail a great deal of administrative work. If the bank receives the correct and appropriate information from the field office, it will be able to process the information in a short period of time.

If we are able to facilitate a rapid exchange of information among the intermediary institution, the bank's field office and the headquarters in Washington, this program will operate smoothly. Great efforts are being made to achieve this goal. But because of its very nature, the program requires strong support from the institutions located near the groups needing its help, from those familiar with their weaknesses; they can be a splendid tool in the program's full realization of the objective for which it was established.

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