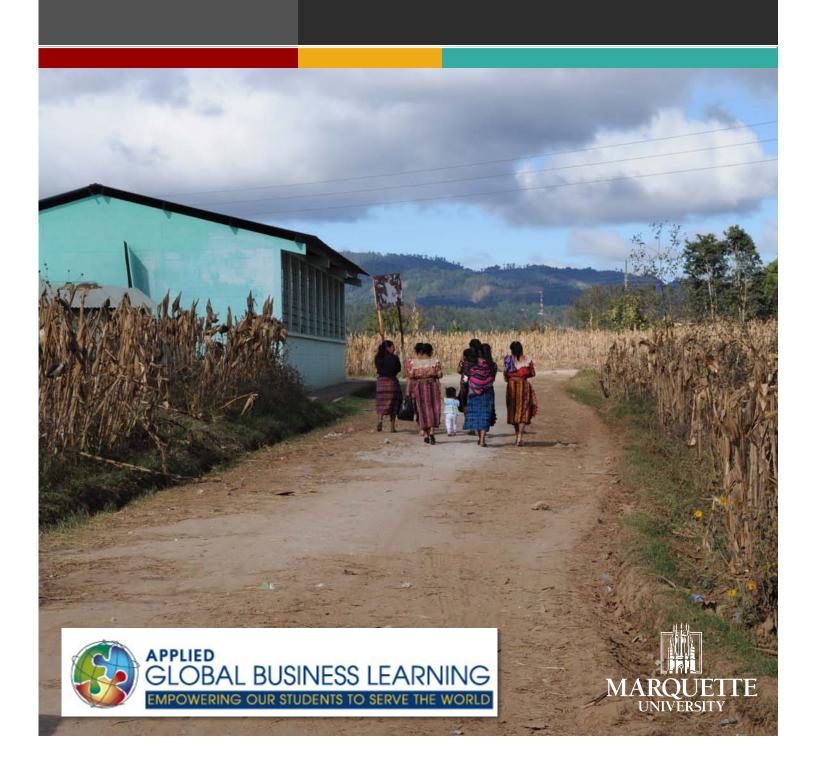
# ACG Business Analysis

Microcredit in Guatemala







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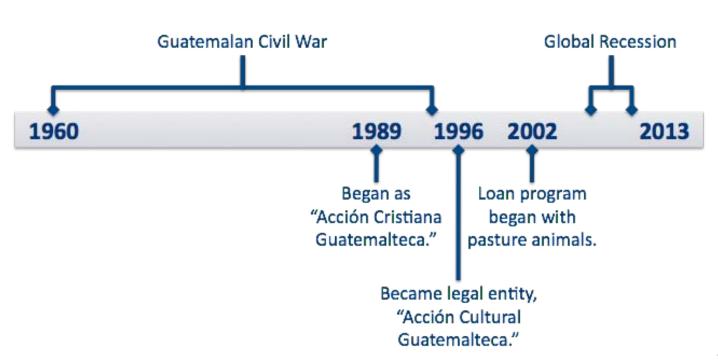
#### II. History of Acción Cultural Guatemalteca

In 1989, ACG began under the name "Acción Cristiana Guatemalteca." The organization arose in response to the violence of the civil war (1960-1996) in Guatemala that left thousands of indigenous people dead and displaced. The Guatemalan civil war marked a time of conflict, repression, and violence particularly aimed at exterminating the Mayan people and culture. ACG arose as a necessity for the revitalization and celebration of the Mayan culture that had been oppressed for over 30 years. Many indigenous people developed strong ties to this organization even though, after the civil war, they were scattered throughout

the mountains of Guatemala. ACG continues to work in these scattered indigenous communities (see map to the right).

In 1996, ACG changed its name to "Acción Cultural Guatemalteca" in order to receive official recognition and become a legal entity. As a religious organization, they were not able to obtain legal recognition, so they shifted their focus to emphasize cultural action and support for the indigenous people. This change also allowed them to receive financial support from foreign organizations.











#### III. Current Structure of ACG

ACG is legally a nonprofit, so money brought in from repaid loans stays within ACG and is not paid to shareholders (for this reason ACG calls its payments "apportes" or "supports" rather than "interest"). ACG is an organization with legal recognition. They currently have an official office and a formal structure including a Board of Directors, employees, and caretakers of their property. Juan Carlos de León Ventura is currently the head of the Board of Directors as well as the legal representative. As the organization's legal representative, he must be continually recertified and go to classes to learn about administration and accounting. The Vice President of ACG is José Luis Ixchop Us and the speaker of the board is a woman named Antonia who would also take over the duties of the legal representative if (s)he were unavailable. According to Guatemalan law, the members of the Board of Directors must change every two years. The same is true of the members of the Oversight Committee and the Credit Committee. Everyone on these committees can be reelected once, meaning they can serve a maximum of 4 consecutive years on each committee. Currently, there are 14 people who are members of ACG and serve on the Board of Directors and various committees. This group is made up of seven men and seven women. All of the women have taken a turn on the Board of Directors. ACG would like to expand membership to 20-25 and ask more women to be members; however, they have found that many women decline the opportunity. ACG's central staff, including the accountant, Juan Carlos Lopez Chic, the president, Juan Carlos de León Ventura, and the Community Project Facilitator, Paula Castro Zacharías, is paid a monthly salary. The three facilitators in the outlying communities, the assembly (all other members), and the property maintenance person are also paid, but on a daily or hourly basis for time worked.



# IV. Programs and Services

ACG is currently located in Santa Cruz del Quiché and as well as being a microcredit finance institution, offers many different programs and services to the indigenous population. In the beginning, ACG worked with children and adults who were physically or emotionally injured during the war. Postwar, ACG has four main programs that are focused on education, women, community development, and human rights. They also offer scholarships for students to go to school, help families obtain their first animals as well as stoves, and offer art classes and other services to people who are attempting to reconstruct their lives after the civil war.

ACG decided to begin their microcredit program to move towards a more self-sustaining model. They specifically decided to focus on women because men have other sources of receiving credit. ACG's microcredit program began in 2002 when they gave

pasture animals to indigenous women. The women repaid this "loan" by giving one of the animal's offspring to a friend or neighbor. This program successfully led into a microcredit finance program in which ACG gives small loans to indigenous women with very limited resources in order to help them become self-sufficient. With these microcredit loans, the women are able to buy animals, as well as create small business or stores within their community. There are currently 712 women receiving microcredit loans and many women are no longer receiving microcredit loans because they became self-sustaining after receiving microcredit for many years. These microcredit programs strengthen the position of women in society as well as in their family so that they now have power and a voice to participate in discussions of race and classism. For the first time, women are able to handle money instead of relying on their husbands.









# V. Explanation of Microcredit Program

#### a. Application Process

ACG has a standard application process for women seeking to receive a loan. First, ACG hosts a meeting to present itself and explain to the women its loan program and the application process. In order to become eligible for credit, women must form groups of at least five (there is no maximum). ACG has found over the course of its program that individuals are better at paying back the loans

better at paying back the loans if they are members of a group, and the groups provide a support system for the women involved. Upon forming a group, the women create a name for their group, and one of the women either volunteers

or is asked by ACG to be president of the group. The president is generally the person ACG identifies as the most capable member of the group, and she will make sure the group understands the rules, necessity of timely payments, and due dates. She will also serve in some cases as a go between for ACG and the other women in the group.

The second step in the application process is the individual interviews, during which a representative of ACG visits each woman's home to complete the paper application. The woman requesting the loan must provide a copy of her electric bill, a letter of support, and a copy of her DPI (personal identification document). If the woman is not literate and does not have someone to read ACG's application for her, the facilitator from ACG will read the form and fill it out with the applicant's verbal responses. Important information collected includes the following: details of individual and family, characteristics of the home,

financial position, how the woman will use the loan, indicators of poverty, marital status, education status, educational status of their children, languages they speak, read and write, and where/how she will sell her product. Additionally, the facilitator has the opportunity to personally see the woman's home and other significant possessions such as animals, which act as

**Stages of Loan Application Process** 

Step 1: Initial Consultation	•	ACG explain loan program.
Step 2: Home Interview	•	ACG analyzes ability to pay loans.
Step 3: Recipient Enters Program	•	Recipient signs forms and pays Q20 (\$2.56) fee.

insurance of the woman's ability to repay the loan. Once all documents including applications, membership forms/contracts, and group payment schedule are approved and signed and the Q20 (\$2.56) per person fee is paid, the women are entered into ACG's microcredit program. Each woman is given a "calendar" depicting the payment schedule for the group. They then pick up their checks from ACG's headquarters and cash them at banks. Women in outlying communities receive the money directly from the facilitator located there. Upon receiving the check or cash, women are asked to sign a credit receipt, which is then signed by the facilitator and copied for the accountant.

The women are also given the opportunity after receiving a loan to attend a one-day training at the ACG office. During this training, the women learn how to care for animals and get prescriptions for them. After the first year of receiving a microcredit loan the women will not take any more classes.

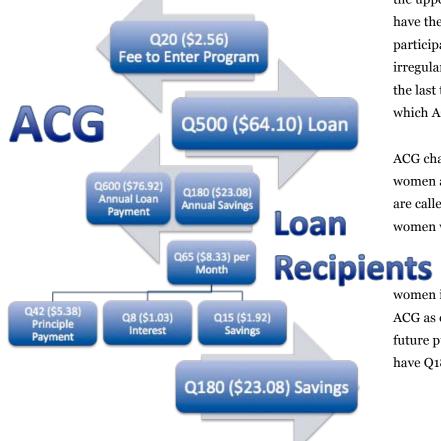




#### b. Structure of Loans and Payment Schedule

The basic Q500 (\$64.10) loan given out to a woman is repaid with Q600 (\$76.92) at an interest rate of 20 percent over 12 months. Each month the women make payments on their loans and in the case of the Q500 loan they pay Q65 of which Q42 go towards the principle, Q8 go toward the support/interest on the loan and Q15 go toward savings (see U.S. dollar equivalents in the flow chart). These interest payments of Q8 a month only add up to Q96 over the course of the 12-month loan period, so the interest and principal payments are adjusted in the last month so that the interest adds up to Q100. All of these interest rates remain the same regardless of the size of the loan.

Shown in the flowchart below is the basic working of the minimum loan (Q500) given to an individual woman in a group.



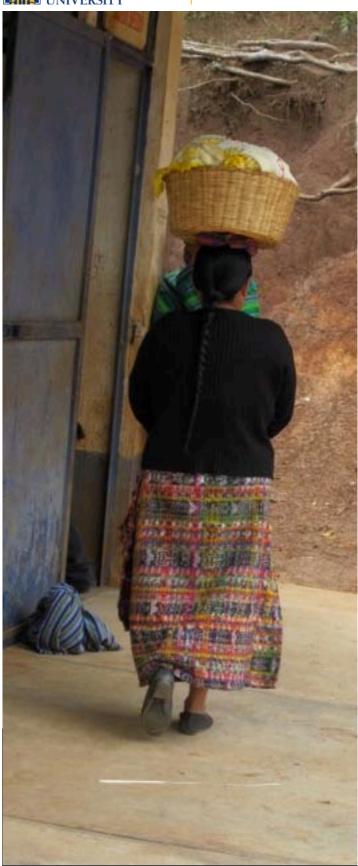


The average loan is Q2,500 (\$320.51) and the maximum limit is Q5,000 (\$641.03). ACG would like to increase the upper limit of loans offered, but currently it does not have the capacity to do so. There are currently 712 participants in the program. On average, 10-15% have irregular payments or late loans. Defaults are rare and the last time a woman defaulted on her loan was 2009, which ACG covered with reserve funds.

ACG charges 20% support/interest on its loans but the women actually pay more than this per month in what are called savings. ACG acts as a temporary bank for the women with the dual purpose of securing collateral

should the woman, or one of the women in their group, default on her loan. Overwhelmingly the women indicated that they appreciated this function of ACG as otherwise they are unable to put money aside for future purchases. This means that by year-end they will have Q180 in savings on a Q500 loan.





Late payments of Q25 (\$3.21) are charged, regardless of the size of the loan or the woman's particular circumstances. Initially, there is a 15 day "grace period," but after this, a Q25 fine is added for each additional month the payment is late.

If a woman continues to have an outstanding payment, three separate steps take place in the following order: the president of the loan group talks to the group as a whole, the president talks to the individual, and ACG talks to the individual. In the case of an individual default in which the woman is unable to repay, her animal(s) or other possessions may be repossessed to pay back the loan. Because the group of women is collectively responsible for the amount outstanding, they must repay the amount due of the defaulting group member. If not, ACG may take the savings of the group. Therefore, the group may choose to repossess the defaulting woman's animal themselves to pay her debt, or they may choose to have ACG repossess what is necessary to pay back the loan. This is the procedure in place, but it is very rare for women to default completely on payments or for repossession to be necessary.





# VI. Experiences of Women in the Program

From the interviews we conducted, most women are happy with ACG. Most women who participate in the microcredit program hear about the program from word of mouth, so they join after seeing the success of a neighbor, relative, or friend. Several women participated in a different microcredit program (we believe it was called Genesis), but then switched to ACG because they felt that the interest rates were fairer and the other program did not have a savings aspect. Many women especially appreciate the savings aspect of ACG's program because they know that it is a reliable source of money at the end of the year.

The majority of the participants used their loans to purchase animals. The animals and products such as eggs, cheese, and milk serve a dual purpose in providing a source of income for the women and additional food for their families.

Several of the women we encountered did choose to start small businesses with their loans. For example, a woman from Cucabaj I was able to open a *tienda* or small store after progressively buying and selling larger animals, and a woman from Choacaman IV has chosen

to use her loan to successfully make and sell doll clothes. Another woman we met with in the village of Choacaman IV used her loan to start a tire store, known in Guatemala as a pinchazo. As the loan recipient, she was the one who made the initial investment to purchase the necessary capital (i.e. the store location and the stock of tires), but she left her children in charge of the day-to-day operation of the store. She worked as a manager with her children as the employees. Initially, her husband was uninvolved in the business; however, as time went on he began to assist her with the administrative duties. The pinchazo was located far from the family's home, they had to either take a bus or walk to get to the store. This location, however, was chosen based on where the woman thought it would receive the most business. She expressed interest in opening another store closer to her family's home, but also seemed concern that a store in this new location might be too far removed from urban areas to do sufficient business. Her original store was successful and she was grateful to ACG for providing her with credit.







Although the women appreciate the loans and what they have been able to do with them, they still feel financially unstable at times because, for the most part, their income relies on how much they can sell their animals for. They do not have a steady and reliable

source of income; their income is very fickle and depends on a lot of factors (i.e. size of the animal, the market, etc.). Some women also expressed a desire to take out larger loans so they could expand their business more, but they were fearful of being able to repay on

Selling Price of Pasture Animals					
Chicken	Q100-150 (\$12.80-19.20)				
Small Sheep	Q150 (\$19.20)				
Large Sheep	Q300-350 (\$38.46-44.90)				

Q1000-2000 (\$128.21-256.41)

time. Others who want to take out a

larger loan are unable to raise the collateral necessary for a large loan.

Typically, the women do not seem to be unable to pay back loans. The hardest months for the women to make the loan payments are during the rainy season (June, July, and

Young Calf

Food Staple Prices (quantity/price per day)

Corn (6 lbs)	Q14.74 (\$1.90)
Bean (1.5 lbs)	Q7.50 (\$0.96)
D: (1 II.)	02.50.5.00 (00.45.0.65)
Rice (1 lb)	Q3.50-5.00 (\$0.45-0.65)

Families can grow corn and beans part of the year, so around harvest time, they will have plenty. The rest of the year, they will have to buy corn and beans; they always buy rice.

August) because that is planting season and they have increased expenses because of supplies they must buy. Another time that women struggle to repay the loan when their children unexpectedly fall ill. In difficult months, married women sometimes rely on their husbands to help repay the loan. This type of shared finances seems common. Many women said their husbands are involved with their loans, helping women pay when they do not have the money (i.e. they have not been able to sell an animal in time to make the payment) and occasionally using their wives' loans to make purchases. Women said their husbands' roles are generally mutual and supportive. Widows that we

interviewed said that it is especially hard for them to make the payment

on time because they do not have a second income in the household. However, these widows also appeared to experience the greatest autonomy.

When we asked what the women want most for their future, the overwhelming consensus was that the women want a better future for their children. They want their children to be educated and have a job with a salary; they do not want their children to suffer in adulthood like they have struggled in childhood. We also asked what gave the women pride, and they said that being able to pay for their children's education and provide for their children is their greatest source of pride. To the women it was clear that the loans from ACG provide a way for them to do this.





### VII. Analysis of ACG

During our time in Guatemala, we were fortunate enough to attend a meeting held by ACG that explained ACG, microcredit, and the loan process to local women. At that meeting, approximately 20 women were present, several of whom already have outstanding loans from ACG. There were also a handful of men. We noticed that at the meeting, ACG facilitators used the feminine plural form of "we" (nosotras), which refers specifically to women. Also of note was that after ACG's presentation only men asked questions. This meeting, in addition to our visits to the ACG headquarters, enabled us to better understand how the information of the program is communicated to interested applicants.

Women who decide to join the program take a class sponsored by ACG that explains relevant topics, such as interest payments, caring for livestock, how to buy medication for livestock, and overall what the women are getting themselves into. We believe that the classes are necessary, as many women in the program have little to no education and perhaps do not fully understand the commitment and consequences involved with taking out these loans. From the numbers we were able to gather, 14% of the loan recipients will not return to the program after a year and 10-15% have irregular payments or late loans. Loans are usually never missed more than 3-4 months. ACG does occasionally have to repossess the animals or personal belonging of women who cannot pay back their loans. The repossession rate is usually between o-2 cases per year out of the more than 400 women who received loans annually.

In 2009, ACG did have to use some of its reserve funds to cover defaulted loans (this has not occurred in the years since). After this time, ACG stopped working with women who were unable to pay back loans, mostly women from urban areas. ACG's model of microcredit seemed to be far less successful and impactful in urban areas because women in those areas tend to be renters. Being renters means they have less collateral because they don't own homes, and they are more likely to move causing ACG to lose track of them. We wonder if women in urban areas would still have a greater level of social mobility. If they could acquire funds, it seems more likely that women in urban areas would have success with a more diversified spread of projects as urban areas offer a larger population that can support a wider variety of small stores and other businesses. Still, ACG has ceased offering loans in urban areas.

We also believe that the classes are important because they seek to educate the women about the commitment they are making and give them the tools to be successful. However, the classes stop after the first year in the program. We believe it could be beneficial to continue offering classes that broaden and diversify the skills of the women receiving loans. Traditionally, indigenous women weave trensas (braids), which they can sell for Q2 (\$0.26) per roll (they can make 2-3 rolls a day). The women interviewed said they have not considered investing in this skill because they do not know how to make hats or other finished products made from the trensas. They were open to learning, so if ACG offered classes to teach new artisan or business skills, they may create other opportunities for women to use their loans beyond raising pasture animals, which is currently the norm.



While many of the women receiving loans indicated that they appreciate the savings program, we noticed that these women are not collecting large amounts of savings or capital to be reinvested. When asked about banking, the women indicated that they do not use banks as most money is spent as soon it is received. Likewise, most women indicated that the savings received from ACG at the end of the year is used to meet additional family needs, rather than reinvested in their business venture.

ACG requires that women take out loans as part of a group of five or more because this creates a social pressure to continually maintain loan payments. From our perspective, group loans are riskier in the sense that if one member is unable to repay her monthly payment, the rest of the group is accountable and must repay or face a penalty. To us, this joint and several liability increases the individual risk; however, the women we interviewed seemed to believe the group model works well. When we asked the women if they worried about group members not paying back their portion of the loan, the resounding answer was that the women in the groups trust each other and will do whatever it takes to repay the loan on time. This is partially the case because women will only form groups with others that they know well and trust. This bond of trust within a group has become part of ACG's assurance that applicants will be able to pay back a loan. Additionally, the women said that being a part of a group is a source of pride for them and offers a great deal of value in and of itself.





From our observations, we deem that ACG is dedicated organization with strong management and checks and balances. The testimonies of the women demonstrated their contentment with the program (many have been a part of the program for several years). In developing countries such as Guatemala, microcredit is sometimes viewed with suspicion. The women we interviewed are satisfied with the terms ACG has offered them, especially because they have heard that interest is much higher elsewhere.

One area that we believe could be improved is how records are backed-up. Currently, all the loan information is in paper-form and organized by Paula. Some of the records are scanned, but for the most part the records are only stored in files on a shelf. We worry that the records would be lost if there were a fire, a flood, earthquake, burglary, etc. We suggested to ACG using an online backup system such as Mozy.com. Our group will continue to follow up with them to make this a reality.





Aside from this challenge, we were impressed with the system ACG has set up for its microcredit program. The organization has a good, trustworthy reputation within the communities in which it works, and the management team is strong and very involved in all of ACG's functions. We do believe that ACG could develop a more detailed evaluation of its clients' business models. From our perspective, part of the loan application process should include ensuring that the women receiving loans have an accurate understanding of the financial costs of starting and running their business (e.g. initial purchase price of an animal, cost of its maintenance in food and medicine, etc.) and have reasonable evidence that this business will be profitable (e.g. final selling price for the animal will be greater than costs). We are also concerned that ACG relies heavily upon donations, making it especially susceptible to hardships during economic downturns; however, the success of the microcredit program does seem to be moving ACG towards selfsustainability.

Overall, one of the greatest strengths we see in ACG is its success in living out its goal of empowering women. We were impressed that half of the women serving on the board or committees of ACG are women. We were also impressed by the work of Paula as a facilitator. Involving indigenous women in the leadership of ACG and day-to-day functioning of the microcredit program demonstrates ACG's commitment to its mission.







#### VIII. Impact on Communities

During the initial meeting with ACG staff, they articulated a twofold purpose behind the women's microcredit program: they hope that the interest from microcredit loan program will move ACG toward sustainability and that the program will empower women. The second goal of empowering women is being met on some levels, but has not reached its fully desired potential. Women receiving loans have not seen social change at the community level, as community leadership is still dominated by men. However, they have seen changes in their positions within their own families. Typically, it is difficult for women, particularly rural women without collateral, to get loans from a bank. By giving women access to money, ACG has helped give them a greater voice within their own households. The women receiving loans feel that they are now more equal partners with their husbands because they are also able to contribute income to the family. Their husbands are generally

supportive of this role as it removes the burden from them to be the sole provider for the family.

Additionally, ACG's microcredit program is forging community among women in its loan program. Several of the women identified the pride they feel in being part of a group of women as one of the most significant benefits of the program.

Overall, ACG's microcredit program reflects the holistic goals of the organization in that it encompasses more than just providing loans. The program provides a means for women to play a more active role in the finances and decisions of their families, encourages savings, and prompts women to organize themselves. In 2013, ACG hosted a celebration to recognize the women receiving loans for their successes. Actions such as this demonstrate ACG's genuine commitment to empowering women by offering them a measure of financial independence.





