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# Colombian Bank Usage Drops for the GSM-102 Program

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**Report Highlights:**

FAS/Colombia is writing a series of reports on the opportunities and challenges for agriculture under the Colombia Trade Promotion Agreement (CTPA), which went into force in May 2012. This report analyzes the reasons behind the recent drop in participation of Colombian banks in the GSM-102 program. U.S. agricultural exports that have been facilitated through the GSM-102 program have been increasing steadily, from $30 million in 2012 to $227 million in 2014. Ironically, regional Latin American banks rather than Colombian banks are using GSM-102 for Colombia. The primary reasons behind this drop in participation include a more stable Colombian economy with higher levels of liquidity, as well as a global connectivity that has enhanced Colombian banks' ability to access international lines of credit with longer repayment terms at lower funding costs (interest rates and administrative fees).

**General Information:**

International agricultural trade often presents financing challenges to exporters of agricultural products, given the reluctance of commercial lenders to extend credit to foreign buyers, particularly those in developing countries. As a result, the U.S. Department of Agriculture (USDA), through its Foreign Agricultural Service (FAS), administers a government-backed agricultural commercial financing for U.S. agricultural exports, known as GSM-102. This export credit guarantee program, with guarantees issued by USDA's Commodity Credit Corporation (CCC), encourage commercial financing of U.S. agricultural exports overseas, and in doing so, facilitating U.S. exporters in making sales that might not occur otherwise.

The CCC must qualify exporters for participation prior to accepting their guarantee applications. To qualify, the U.S. exporter must have a business office in the United States and must not be suspended from any U.S. government program. Also, financial institutions must meet established criteria to be approved by the CCC. On the other hand, foreign banks are advised by the CCC on the maximum amount they can guarantee. Fee rates vary depending on the risk that the CCC is undertaking on a particular country, as well as the repayment term (tenor) and repayment frequency (annual or semi-annual) under the guarantee.

**GSM-102 in Colombia**

Since 1984, GSM-102 has assisted U.S. exporters to avoid the risk of losing money if the associated Colombian buyer's bank is unable to pay under a Letter of Credit. The program guarantees up to 98% of the loan principal and a portion of the interest. GSM-102 is meant for short-term transactions, ranging from 2 to 36 months. Seven Colombian banks have been approved for GSM-102, with most of them being the largest banks in the country. The chart below shows the credit limits for the participating Colombian banks:

| | |
|---|---|
| **Bancolombia** | $400,000,000 |
| **Banco de Bogota** | $400,000,000 |
| **Banco Davivienda** | $150,000,000 |
| **BBVA Colombia** | $125,000,000 |
| **Bancolodex** | $125,000,000 |
| **Banco Colpatria Red Multibanca S.A.** | $100,000,000 |
| **Banco GNB Sudameris S.A.** | $80,000,000 |

Source: USDA

Intuitively, the largest users of the GSM-102 program in Colombia have traditionally been Bancolombia and Banco de Bogota, which happen to be the largest and least risky banks in the country. While some of participating Colombian banks have operations in other parts of the region, most of the GSM-102 money has traditionally been used in Colombia, supporting U.S. agricultural exports in light of rival exports from other foreign suppliers including Canada, and Argentina.

The following chart is a breakdown of GSM-102 funds used for South America and Colombia since the initiation of the U.S.-Colombia free trade agreement (CTPA) in 2012. It also describes a breakdown of the commodities exported to Colombia using GSM-102.

| | FY 2012 | FY 2013 | FY 2014 |
|---|---|---|---|
| **South America Total** | **$471,853053** | **$508,949,387** | **$403,924,320** |
| **Colombia Total** | **$30,274,254** | **$99,096,036** | **$226,465,829** |
| Corn Gluten Meal | $6,199,998 | $2,823,632 | N/A |
| Corn Meal | $1,762,183 | N/A | N/A |
| Distilled Dry Grain | $2,583,172 | $2,830,676 | $328,448 |
| Soybean Meal | $3,117,975 | $37,363,320 | $21,843,271 |
| Soybean Oil | N/A | $9,982,403 | $8,365,500 |
| Soybeans | $4,862,927 | $4,047,994 | $15,347,860 |
| Wheat | $5,647,999 | $33,518,956 | $13,454 |
| White Corn | $6,099,999 | N/A | $5,158,296 |
| Yellow Corn | N/A | $8,529,055 | $143,029,521 |
| Rice | N/A | N/A | $32,379,479 |

Source: USDA

It is vital to understand that although U.S. agricultural exports under the GSM-102 program has been increasing steadily from $30 million in 2012 to $227 million in 2014, these guarantees have been applied by and issued to non-Colombian banks in the region. Colombian banks, as described later on, have not been participating in this program as they did before.

The main beneficiaries of GSM-102 funds in Colombia have traditionally been U.S. exporters of grains, feeds, and oilseeds such as corn, wheat, and soybean products. As depicted on the following chart, these products also happen to be the largest U.S. agricultural exports to Colombia, amounting to approximately 70% of the export value. As a result, Colombia has become the largest market for U.S. agricultural exports in South America with total sales of US$2.4 billion in 2014.

**U.S. Agricultural Exports to Colombia**

| Product | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|
| | (Million dollars) | | | |
| Grains & Feeds | 446 | 350 | 567 | 1,262 |
| Oilseeds & Products | 242 | 303 | 409 | 490 |
| Horticultural Products | 152 | 177 | 214 | 274 |
| Livestock & Meats | 52 | 74 | 111 | 166 |
| Sugar & Tropical Products | 48 | 59 | 59 | 61 |
| Dairy & Products | 9 | 21 | 27 | 60 |
| Poultry & Products | 24 | 36 | 48 | 53 |
| Cotton, Linters & Waste | 133 | 63 | 60 | 43 |
| Planting Seeds | 17 | 17 | 20 | 13 |
| Total | 1,123,396 | 1,100,058 | 1,514,944 | 2,420,611 |

Source: U.S. Census Bureau Trade Data

**Prosperous Colombian Economy**

Overall conditions in Colombia have changed dramatically over the last decade. Under an effective macroeconomic policy management, Colombia has displayed a significant economic growth compared to its regional neighbors, reaching 4.6% in 2014. For 2015, relevant external forces that may impact the Colombian economy include further decreases in international oil prices and U.S. monetary policy changes. As a result, it is expected that the Colombian economy grows only 3.5% in 2015.

Compared to its Latin American neighbors, Colombia has one of the most advanced and stable banking systems. Currently, Standard and Poor's gives Colombia a positive "BBB" credit rating, for its adequate capacity to meet its financial commitments. Furthermore, according to some experts, Colombia's credit rating could be upgraded to match its neighboring countries including Brazil (BBB-) and Peru (BBB+). This may be accomplished, according to some experts, by reducing its already relatively low national debt level of 32.3% to 17% or lower.

The country boasts conservative credit lending policies designed to avoid high risks of default, placing Colombia as one of Latin America's safest countries to invest. It is likely that Colombia will maintain this stance on loan granting, particularly with the adoption of the 2012 fiscal rule, which seeks to maintain a downward trend of the structural fiscal deficit until 2022 while meeting its annual GDP growth goals. Thus far, Colombia has remained consistent with these established goals.

**Foreign Direct Investment and Financial Integration**

Colombia has witnessed an increased foreign direct investment inflow over the past few years and the local banking industry has been one the recipient industries. Colombia's constitution allows for the owning participation of foreign investors into the banking system. In order to do this, however, foreign entities must gain approval from the "Financial Superintendent" (under Article 88 of the Financial System's Basic Statutes) before making a direct investment of 10% or more in any one entity. Additionally, foreign banks must establish a local commercial presence and must comply with the same capital and other requirements as local financial institutions. Colombian legislation limits the operation of banks and other financial institutions by separating fiduciary, investment banking, commercial loans, leasing, and insurance services from banking services. Institutions are also required to register with the Financial Institutions Guarantee Fund, or FOGAFIN. Approximately 24% of all of Colombia's bank assets are foreign owned. Furthermore, 54% of bank assets are nearly evenly split between two domestic private financial groups—Sarmiento Group (Grupo Aval) and Sindicato Antioqueño Group (Bancolombia)—while the rest are owned by smaller and less significant entities.

While significant foreign investment in Colombia's banks comes from the United States, recent acquisitions have come from Canada and Brazil. Canada's Scotiabank finalized a deal in 2012 in which it agreed to pay $500 million and 10,000,000 common shares in the capital of the Bank of Nova Scotia in exchange for 51% of the common shares of Banco Colpatria. Furthermore, Colombian banks themselves are currently expanding beyond Colombia's borders and are investing in regions such as Central America, where Bancolombia, for example, purchased HSBC's Panama operations in October 2013 for $2.3 billion, El Salvador's Banco Agricola for $900 million in 2006, and a 40% stake in Group Financiero Agromercantil in Guatemala in December 2012 for $216 million. Additionally, observers are anticipating a potential expansion into Central America by Bancolombia, Banco de Bogotá, and Davivienda after Citigroup's announcement in October 2014 that it was planning to sell its consumer operations in Costa Rica, El Salvador, Guatemala, Nicaragua, Panama, and Peru. In short, if Colombia's banks can successfully continue expansion without facing increased risks of financial stress, they may enhance their role as a significant player within the Latin American financial sector.

Colombia has also displayed a clear interest to open its economy to the world, by signing several free trade agreements over the past few years. These include agreements with the United States (2012), the European Union (2013), and Canada (2011). Furthermore, Colombia has shown an increasing interest for regional integration. In this sense, it has joined its Latin American neighbors Peru, Chile, and Mexico on the Pacific Alliance and the Integrated Latin American Market (MILA). The former seeks to build a deep economic, trade, and political integration among their members, while the latter has integrated the stock exchange markets and depositories of the country members to promote the growth of regional trading activity, attracting the attention of local and foreign investors.

**Competitiveness of GSM-102 in Colombia**

As previously mentioned, this export credit guarantee has traditionally posed great benefits to U.S. agricultural exporters. Furthermore, it has helped foreign importers by providing them with access to credit from a local bank, an increased buying capacity, longer loan repayment terms, and lower costs of buying credit.

Very importantly, GSM-102 has also provided foreign banks with great benefits, and has been traditionally been quite competitive. These benefits have included access to international trade finance, increased credit lines, the ability to borrow in U.S. dollars, and relatively longer loan terms at lower funding costs (interest rates and administrative fees).

The competitiveness of the GSM-102 program in Colombia has been diminished by endogenous and exogenous forces. As described, Colombia has witnessed significant economic growth as a result of a sound macroeconomic policy, which has consequently caused higher liquidity levels, strengthened its finance system, and has enhanced its global integration. In short, Colombian banks, including those participating in the GSM-102 program, have many more financing options than they did in the past. In particular, some participating banks have informed FAS-Bogota about their enhanced global connectivity, as well as longer loan terms and lower interest rates and administrative costs for international trade finance. As opposed to the GSM-102 program, which in Colombia allows for loan terms of up to 18 months, Colombian banks are presumably able to find significant credit lines with tenors of two to three years at interest rates of 20-30% lower in Europe, Latin America, and even other U.S. financial institutions.

**Remaining Risks**

While the banking system in Colombia remains robust, there remain a number of actual or perceived risks that restrict the inclination to invest in the financial sector.  One problem is the lack of infrastructure needed to expand the banking system throughout the country.  Much of the country's financial sector is found in urbanized areas such as Bogota, Medellin, and Cali. However, in poorer departments, roads are either non-existent or in terrible condition, resulting in restricted transportation access to banks or ATMs. In consequence, a vast informal financial sector persists. Nonetheless, in 2015 Colombia's central government is seeking, among other reasons, to correct this issue through the implementation of the 4G (Fourth Generation) Road Concessions program, a $25 billion infrastructure investment project.

Additionally, fears of violence and a return to widespread conflict persist among investors. Armed groups including the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN) continue to operate within Colombia's borders, with occasional killings and kidnappings. Currently, Colombia is in negotiations with the FARC seeking to reach a peace deal that will put an end to nearly fifty years of armed conflict between the paramilitary group and the central government. One reason President Juan Miguel Santos was elected to a second term was to finish the negotiations.