

INSTITUTIONAL STRENGTHENING OF THE OFFICE OF THE BANKING SUPERINTENDENT

(TC-96-01-35-4)

EXECUTIVE SUMMARY

BENEFICIARY: Republic of Paraguay

EXECUTING AGENCY: The Superintendencia de Bancos [Office of the Banking Superintendent] (SB), under the Banco Central del Paraguay [Central Bank of Paraguay] (BCP).

OBJECTIVES: The primary objective of the program is to strengthen the Office of the Banking Superintendent as a means of improving the efficiency and transparency of the country's financial system. By bolstering the SB, the program will be helping to develop a stable and reliable financial system as an essential ingredient for expanding Paraguay's private sector, which requires strong credit institutions capable of providing efficient financial intermediation services for savers and investors alike. A revitalized SB will make for more effective supervision of these institutions, helping them avoid unnecessary risks and better allocate the nation's savings.

DESCRIPTION: The program includes the following components: (i) developing the regulatory framework established under the Charter of the Central Bank and the new general law governing banks, finance companies and other credit institutions; (ii) training and professional upgrading for SB technical staff; (iii) improving audit and evaluation by providing computerized systems; (iv) implementing new and improved means for dissemination of the information generated by the institutions that make up the formal financial system; and (v) coordinating the project.

FINANCING:

Modality:	grant
Beneficiary:	US\$ 300,000
MIF:	<u>US\$1,200,000</u>
Total:	US\$1,500,000

ENVIRONMENTAL CLASSIFICATION: The Environment Committee, at its meeting of April 9, 1996, classified this project as a Category II operation.

Executive Summary

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DATE OF APPROVAL May 6, 1996
OF THE MIF
PROFILE II:

IMPLEMENTATION Commitment period for funds, 24 months; term for
SCHEDULE: disbursement, 30 months.

PROCUREMENT OF Current Bank procedures for the procurement of goods
GOODS AND and the awarding of contracts for services, including
CONSULTING consulting services, will be followed. The
SERVICES: thresholds above which international competitive
 bidding will be required for procurement under this
 program will be: US\$250,000 for goods and services
 and US\$200,000 for consulting services (see paragraph
 5.3).

CONTRACTUAL As a prior condition for the first disbursement of
CONDITIONS: funds, the BCP must submit for the Bank's approval
 evidence that it has: (i) appointed the head of the
 project; and (ii) provided the basic infrastructure
 required to carry out the program (paragraph 2.48).

The contract must also establish conditions to ensure monitoring and evaluation of the program, submission of duly audited financial statements, and compliance with the Bank's procedures for the procurement of goods and the hiring of consulting services.

I. COUNTRY ELIGIBILITY

- 1.1 On September 15, 1994, the Donors Committee declared the Republic of Paraguay eligible for all forms of financing under the Multilateral Investment Fund (MIF).

II. THE PROJECT

A. Frame of reference

- 2.1 Since May 1995, the financial system of the Republic of Paraguay has been experiencing liquidity and solvency problems that have the potential of developing into a systemic crisis. As a consequence, the Central Bank of Paraguay (BCP) has had to take control of four banks, one mortgage savings and loan association, two private pension funds, and eight financial institutions, revoking the licenses of the latter as well as those of the banks. In addition, it is currently studying five requests for voluntary mergers between banks and finance companies.
- 2.2 This situation gave rise to a massive withdrawal of funds from Paraguayan financial institutions. To avoid further loss of deposits and halt the decline in lending to the private sector, the BCP put in place a security network for the national financial system. The creation of this network and the payments made for return of deposits to institutions taken over by the government placed a severe strain on the nation's finances and required an infusion of US\$336 million into the financial system (approximately 62% of the bank notes and currency in circulation, or about 4% of GDP). This crisis served to confirm the lack of transparency in the system by revealing the existence of assets and liabilities not recorded in the financial statements of the country's financial institutions.
- 2.3 At the international level, this situation has affected both the flow of resources in support of the formal export sector and the efforts to prevent irregularities in the transfer of deposits, both of which have slowed considerably.
- 2.4 Meanwhile, the Central Bank has in the past received assistance from international organizations to improve its operations and data analysis capabilities, and to strengthen the Office of the Banking Superintendent (SB). On November 19, 1991, the BCP received US\$2.8 million in nonreimbursable funding from the Government of Japan through the World Bank for institution strengthening. Of this total, US\$1.2 million was employed to upgrade the programs used by the SB to monitor the banking system.

- 2.5 The funds supplied by the World Bank were used to carry out the following activities: (i) hardware was purchased to equip the SB's computer applications plan (PLANINFO) for modernization of accounting systems under its financial analysis system and coordinating their use for monitoring purposes, as well as to create a credit risk analysis unit and upgrade the data collection and processing systems used by its Financial Audits and Inspection Division; (ii) international and Paraguayan legal experts were hired as consultants, resulting in the enactment of the Charter of the Central Bank and the general law governing banks, finance companies and other credit institutions; and (iii) a total of 25 officials were given training in the following areas: the new accounting system; operation of new computer programs and systems; banking supervision and inspection methods; and management of trust funds. The training was given abroad on-the-job and in local specialized institutions. As of June 30, 1996, some US\$1.04 million of the original grant had been executed (85% of the total amount allocated to the SB).
- 2.6 The above technical-cooperation project was supplemented with resources from the IDB as follows: US\$158,000 under loan 841/SF-PR, strengthening of the financial system; and US\$400,000 under loan 728/OC-PR, investment sector program (ISP). The latter program made it possible to conduct competitive bidding and recruit senior consultants to introduce substantial improvements in the provisions of the general law governing banks, finance companies and other credit institutions, including: registration of shares, disclosure of information on contractual obligations and effective interest rates, and the matching of the net worth of banks to their risk assets. The ISP also helped introduce a new organizational structure for the SB, which was approved by the BCP in August 1996. Despite these changes, the SB continues to suffer from serious institutional weaknesses in: its regulatory framework; training of its personnel; its computer systems; and its capacity to gather, evaluate and disseminate financial information.
- 2.7 The present study is a continuation of efforts begun by the Bank under the ISP and supplements the activities initiated under the WB operation. The WB program was launched when neither the Central Bank Charter nor the new general law governing banks, finance companies and other credit institutions had been enacted. Because only a small number of personnel was trained under that operation, the additional training that would be offered under the present program is needed. Thus, this program will maintain the continuity of reforms within the SB begun jointly by the WB and the IDB.
- 2.8 The recent systemic problems have sorely tested the capacity of the SB, exceeding its supervision and prevention capabilities despite the support provided by the Bank and the WB. Consequently, the authorities of the BCP have requested the Bank's cooperation for continued strengthening of the SB. There is a glaring need for preventing irregularities in deposits, the detection of which

requires suitably trained professional staff and proper computer equipment. Moreover, the introduction of new operating methods and modern financial instruments requires the drafting of new regulations and the imparting of modern skills to the officers and managers of the SB.

- 2.9 As well, the SB has added 33 new officers to replace former officials and meet the need for additional staff. Training is needed for these new employees, in addition to refresher courses to update the know-how of more senior staff.

B. Relationship of the Central Bank to the Office of the Banking Superintendent

- 2.10 Its Charter makes the BCP, acting through the SB, responsible for overseeing compliance with measures for management, oversight and enforcement by the country's banks, finance companies and other credit institutions.
- 2.11 The Charter also establishes the SB as a technical unit with full operational, administrative and financial independence in the exercise of its duties.
- 2.12 The highest governing body of the SB is the Executive Board of the Central Bank. The administrative structure of the SB was amended on August 19, 1996, to create three departments - the inspections, standards and asset evaluation departments - in order to address current needs. At the same time, the SB is required to provide a wage scale commensurate with the professional qualifications required of its staff, and to base it on comparators obtained from the private banking sector.

C. Objectives

- 2.13 The primary objective of the program is to strengthen the SB as a means of guaranteeing the efficiency and transparency of the country's financial system. Bolstering the SB will safeguard the transparency and control of the financial system, raising the general level of confidence among those using the services offered by that system. In particular, the private sector will have the benefit of a properly managed banking system able to provide efficient financial intermediation services for both savers and investors alike. Privately owned productive units will thus have greater opportunity for achieving vigorous growth since they will have additional financial resources available for their expansion, and reliable services for conducting commercial and international transactions. At the same time, the nation's savers will have access to appropriate institutions and the mechanisms needed for deposit of their surplus funds.
- 2.14 The specific objectives of the proposed program will supplement activities already carried out with the support of the World Bank

and the IDB, and include the following: (i) operational development of the regulatory framework for the SB; (ii) implementation of procedures for selecting, preparing and providing professional training for SB inspectors; (iii) further development of the SB's computer infrastructure in order to ensure timely processing of financial information; and (iv) adoption of appropriate means for disseminating this information.

D. Subprograms

- 2.15 The plan of operations includes five subprograms. The specific activities and expected results of each subprogram are listed in Annex I-1 (Synopsis of the program). The subprograms or components of the operation are described below:

1. Subprogram I. Development of regulatory framework (US\$397,000)

- 2.16 In the second half of 1995, the Charter establishing the Central Bank was promulgated. It assigns to the SB the task of preventive supervision and control of the institutions of Paraguay's financial system, granting it operational autonomy and administrative independence.

a. Specific objectives

- 2.17 On July 2, 1996, the general law governing banks, finance companies and other credit institutions (Law 861) came into force. It introduced new practical applications that require comprehensive regulations, for which the following are required:
- (i) Review and updating of the existing regulations to bring them into line with the new laws, and issuance of new regulations governing banking transactions and new financial modalities such as leasing, derivatives, etc., and measures to detect irregularities in deposits.
 - (ii) Revision and updating of manuals of procedures prepared by outside consultants, inspections, the manual on analysis and evaluation of assets, and the manual of fiduciary operations and transactions.
 - (iii) Design and implementation of manuals on staff functions, positions, and salaries, and general reorganization of the SB according to the proposed new organizational structure.
 - (iv) Revision of regulations specifying the duties of external auditors, given the provisions introduced in the new law on financial institutions requiring that their operations and financial statements be audited. Existing rules in this area must be made consistent with the new law governing banks with respect to the frequency and scope of such audits, and the requirements that auditors must meet.

- (v) Given that the SB at present has no uniform policy concerning application of the laws and regulations governing the financial system, there is a need to draft a manual of procedures for their implementation. This manual must be broad enough so that it is useful at all levels of the SB, and must avoid any ambiguity in its overall application.

b. Specific activities

2.18 The MIF resources provided will be used to hire consultants to assist the SB in the following areas:

- (i) One international consultant in regulation and supervision of financial systems, business administration and organization, to identify and draft the rules necessary for the new regulatory framework, according to international standards. At the same time, this consultant will update the control and supervision manual. The SB will assign a counterpart staff member with sufficient authority to ensure continuity and verify the implementation of the rules and regulations issued (approximately 12 months).
- (ii) One international consultant to revise, update and implement manuals covering inspection procedures and the analysis and evaluation of assets, and to design regulations governing the operation and supervision of finance companies and credit unions (approximately 12 months).
- (iii) One international consultant to revise and update the regulations governing the duties of external auditors, as well as to draft a guide for evaluating their work (approximately six months).
- (iv) Four international consultants to draft regulations governing new financial products such as fiduciary transactions, foreign trade operations, derivatives, leasing, etc., and to provide staff training on the management and supervision of such products (approximately two months per consultant).
- (v) One consultant to advise on preparation of the legal framework of the SB, and the civil and criminal law provisions that bear on the duties of SB staff. As well, this consultant will clarify important aspects of administrative law that can serve as guidelines for improving the performance of SB officials. A Paraguayan law firm will assist the principal consultant in carrying out this task.

2. Subprogram II. Training of inspectors and personnel responsible for preparing the regulations, procedures and controls (US\$283,000)

- 2.19 The SB has 145 employees, of which 79 are assigned to inspection duties and 53 to regulations and procedures. The remaining staff members are assigned to administrative tasks.
- 2.20 SB officials have received training in the use of the accounting manual and the new manuals on inspection and evaluation of assets, and basic auditing. However, they are still in need of training in basic banking operations and specific transactions (for example in the detection of irregular deposits), and in the use of supervisory procedures and guidelines. In addition, they require further instruction in the analysis of financial institutions, fiduciary transactions and new products, gathering of statistics, and auditing of computerized systems.
- 2.21 There is also a need for training grants so that 30 officials from various departments - the departments of inspection of financial institutions, asset evaluation, standards and procedures, financial data publications, and project coordination - can receive training in various specialized institutions and in other countries. Officials selected for this program will be required to make a commitment to remain with the SB for at least 24 months following completion of training.

a. Specific objectives

- 2.22 The principal objectives under this subprogram are to: (i) improve the efficiency of the SB in carrying out its duties by providing continuous and systematic training for its technical personnel; (ii) provide these officials with the tools and techniques required for carrying out their duties, especially in the area of preventive measures; and (iii) familiarize them with the methods and experiences of other supervisory agencies.

b. Specific activities

- 2.23 The financial resources will be used to provide the following basic training for technical personnel of the SB:
- (i) Six courses or seminars on: credit risk analysis, financial analysis of banking institutions, application of computer programs for data processing, utilization of computerized tools in financial supervision, and other topics related to banking. These will be conducted by professional instructors who are well versed in supervising the operations of financial institutions and experts in computers.

- (ii) Nine courses on specific topics such as: foreign trade, leasing, pension capital funds, derivatives and other operations authorized under the new banking legislation. These courses will cover preventive monitoring and supervision of such operations.
- (iii) Thirty internships at institutions with mandates similar to that of the SB, whose performance in the area of financial supervision is particularly outstanding. This would include visits to various countries (e.g. Mexico, Colombia, Chile, Bolivia, Costa Rica, Peru and Uruguay) where officials could receive training at specialized institutions such as the Center for Latin American Monetary Studies (CEMLA). It is estimated that 3-5 grants would be awarded in each department of the SB, selecting those officials who require training and experience in their field of specialization.

3. Subprogram III. Computer equipment for the Office of the Banking Superintendent (US\$500,000)

2.24 The proceeds of loan 728/OC-PR for the investment sector program are being used to finance part of the additional equipment needed for the SB. Given that this involves the adoption of new systems, and since the new bank law increases the number of institutions under SB supervision, the SB must further expand and upgrade the capacity of its computer hardware, network connections with financial intermediaries, modems, computer programs, etc.

a. Specific objectives

2.25 One specific objective of the proposed program is to maximize the effectiveness of data processing systems within the SB. The program will also provide inspectors with modern computer systems for improved performance of their duties, as well as additional technological equipment to improve the SB's operating efficiency.

b. Specific activities

2.26 The funds provided under this subprogram will be used for procurement of the additional equipment needed to complete the SB's computer systems. The necessary equipment will include laptop computers for the SB's inspectors, plus software packages for financial applications and inspection audits. Other items to be purchased include photocopiers, fax machines, printers and educational materials such as overhead projectors and screens (see Annex III).

4. Subprogram IV. Creation of an appropriate system for collection, publication and dissemination of financial data (US\$140,000)

- 2.27 The SB's control and supervision division is responsible for continuous monitoring of the country's financial institutions and conducting a monthly analysis of their transactions. The data on which it relies is currently gathered partly in electronic format, and partly in the form of paper documents. In addition, the amount of data received is voluminous and requires organization.
- 2.28 The information collected is processed and distributed both within the SB and outside, including data received from the risk analysis unit in electronic format. However, the data collection methods are slow and of poor quality, especially in the case of information arriving in hard copy.
- 2.29 At present, the information is being received by more than one section of the SB without adequate coordination. This results in inefficient use of manpower and material resources, as well as adding to the workload of the sections involved.
- 2.30 The PLANINFO project begun in 1995 envisaged a new system in which all data would be received in electronic format. Since this project has only partially been implemented, however, it has not been possible to arrange for computer processing of all incoming data, nor for its distribution and dissemination as planned.
- 2.31 The control and supervision division prepares a monthly report called the CAULA in which it evaluates the capital levels, assets, profit margins, liquidity positions and management capacity of the country's credit institutions, based on financial indicators. It is necessary to revise and update the methods and comparative parameters used for this report, and to draft a manual of instructions to guide the work of the SB analysts who prepare it.
- 2.32 The new general law governing banks requires that the SB publish, at whatever intervals are necessary, all of the information needed to ensure the transparency of Paraguay's financial system. The minimum information needed for satisfying this requirement includes: (i) equity position of banks; (ii) current rates of interest; (iii) audited balance sheets; and (iv) degree of compliance with prudential regulations.
- 2.33 To meet its new obligations, the SB needs to: (i) modernize its data collection methods and systems; (ii) upgrade its data processing systems; (iii) add new means of disseminating data; (iv) provide greater access for larger and more varied user groups; and (v) improve the technical process for data reproduction, etc.

a. Specific objectives

- 2.34 The specific objective of the proposed program is to make substantial improvements in the publication and degree of transparency of the information collected, through improved data collection and processing systems, and timely dissemination of the data received. This will include expanding the distribution of information, both within and outside the SB, so as to further enhance the transparency with which the country's financial institutions operate.

b. Specific activities

- 2.35 This will necessitate hiring an expert who can evaluate the data received and - based on the applicable regulations - design the data format and determine the frequency with which this information will be published by the SB, with due attention above all to protecting the confidentiality of the data. This task will take approximately two months to complete.
- 2.36 There is a need as well to create a unit under the Office of the Banking Superintendent, specializing in the dissemination of the data to be issued by the SB, which will require the recruitment of another expert to design the organization and oversee the startup of this unit. This task will require approximately one month.
- 2.37 The equipment needed for preparation and distribution of the data issued by the SB - whether in visual media, in print or in electronic form (including remote processing) - will be purchased. Additional equipment needed for printing reports, providing backup copies of electronic files, shredding documents, etc., will be purchased as well.

5. Subprogram V. Project coordination (US\$180,000)

- 2.38 The project will require an international technical coordinator with ample experience in banking supervision and administrative oversight, if possible in projects of a similar nature, and the ability to coordinate the various components that make up this program. This individual will be responsible for administering the funds provided under the program, based on conditions laid down by the Bank. The coordinator will be hired for a period of 18 months.
- 2.39 Among other tasks described in the terms of reference (see Annex II), the coordinator will prepare the program of activities to be carried out under each component of the program, based on an overall project schedule listing tasks to be carried out by the various professional staff involved in each area. This will include the specific duties of the consultants and local counterpart personnel, and the deadlines for execution of each task or issuance of each set of regulations.

- 2.40 In addition, the BCP will appoint an official with sufficient experience in banking supervision and administrative oversight duties to serve as national project director, carrying out the respective duties under each component of the program in coordination with the international consultant. The project director will be responsible for administration of the operation in accordance with the conditions specified by the Bank, and his or her appointment will be subject to the Bank's nonobjection.

a. Specific objectives

- 2.41 The specific objectives of the project coordination subprogram are to provide a link between the executing agency, the project sponsor, and the SB staff and consultants responsible for the various tasks to be carried out under the project, and to coordinate the hiring of experts and the execution of contracts and to ensure the fulfillment of the broad objectives and specific goals set for each such expert.

b. Specific activities

- 2.42 Review topics relating to banking supervision in Paraguay, the operations of the SB, its relationship to the BCP, and the applicable laws governing the financial system, in order to ensure that the tasks to be carried out under this project are in accordance with the respective legal framework.
- 2.43 Draw up a program of activities for each of the areas included under the project, based on the project schedule listing tasks to be carried out by the various participants. This program will include the specific duties of each consultant and counterpart Paraguayan official, and the deadlines by which tasks are to be completed or regulations issued.
- 2.44 Review the terms of reference of the various consultants to be hired; monitor their performance to ensure that they carry out their tasks in accordance with the terms of reference and meet the specific objectives for which each one was hired; and ensure that the counterpart personnel perform up to expectations and carry out their assigned tasks.
- 2.45 Evaluate the final reports submitted by the consultants, recommending approval or suggesting changes. Prepare and submit to the Bank requests for disbursements, substantiation of expenditures and the required progress reports.

E. Costs and financing

- 2.46 The table below presents in summary form the estimated cost for each subprogram under the project:

SUMMARY OF PROJECT COSTS UNDER EACH SUBPROGRAM BUDGET (US\$ thousands)				
SUBPROGRAM	COMPONENT	MIF	LOCAL	TOTAL
I. Development of regulatory framework	a. Drafting of regulations required for the new regulatory framework.	60	-	60
	b. Revision, updating and implementation of inspection manuals and regulations governing new products, fiduciary and specific transactions, and the duties of the external auditor.	252	-	252
	c. Design and implementation of manuals on positions, salaries (based on comparators from the private banking sector) and internal organization of the SB in accordance with the new laws and restructuring, and definition of the legal procedures to be followed by the SB in carrying out the duties assigned to it under the new laws.	73	12	85
II. Training of SB inspectors, personnel responsible for preparation of regulations, and analysts	a. In-service training courses given by international experts, and courses in specialized institutions.	160	-	160
	b. Internships grants in banking supervision institutions in other countries.	85	38	123
III. Additional equipment for the SB	a. Laptops for inspectors, printers, other peripherals and ancillary equipment.	250	225	475
IV. Creation of an appropriate system for collection, publication and dissemination of financial data	a. Design of methods for analysis and classification of data to be published in accordance with the new regulations.	30	-	30
	b. Design and equipping of the office responsible for processing and issuing data for publication.	110	-	110
V. Project coordination	a. Administration, control and monitoring to ensure achievement of program objectives.	180	25	205
TOTAL		1,200	300	1,500

F. Project organization and execution

2.47 The BCP, acting through the SB, will be the authority responsible for execution of this project.

2.48 In addition to the usual conditions set by the Bank, the executing agency must meet the following two requirements to be declared eligible for disbursements: (i) it must have appointed a

Paraguayan official to serve as national project director; and (ii) it must have provided the basic office facilities required for execution of the project.

G. Monitoring of the project

- 2.49 The executing agency will submit quarterly progress reports indicating the advances achieved under each subprogram. These reports must be accompanied by a summary of the tasks carried out by each consultant during the respective period. The first progress report will cover the initial three-month period following startup of the program; subsequent reports will be adjusted to cover three calendar months each. The final report will be submitted together with the request for the final disbursement of resources under the program. The general coordinator for the program will be the official responsible for preparation of these reports.

H. Feasibility, risks and special concerns

- 2.50 The success of the program will require commitment on the part of the BCP authorities. The proof of this commitment will be seen in their appointment of a well-qualified project director with the necessary authority and backing to carry out the tasks under this program, and with access to the highest authorities in the Bank. In addition, for proper implementation of recommendations made by the consultants, the respective authorities will need to make rapid decisions and act in a timely manner to give these recommendations effect.
- 2.51 The benefits of this program are that it will: (i) promote transparency in Paraguay's banking system through dissemination of financial data on market operators; (ii) raise operating efficiency and encourage competition between banks through public disclosure of their pricing and financial position; (iii) enhance the reliability and transparency of the mechanisms for controlling the flow of funds by improving the preparation of data on local operators and the detection of irregular transactions; and (iv) upgrade the SB's capacity for preventive measures.
- 2.52 The risks inherent in the program include the possibility that: (i) the counterpart officials attached to the consultants may not be sufficient or may not have the necessary technical level; or (ii) the new laws may not be enacted, which would affect the development of the regulations to be issued under this program. To mitigate these risks, the BCP has begun hiring young professionals to augment the staff of the SB, and has agreed to hire additional staff on the recommendation of outside consultants recruited for this purpose. Moreover, in July 1996, the Paraguayan government promulgated the new general law governing banks, finance companies and other credit institutions, which will govern the operation of

the system in the future, and for which the present operation will draft the necessary regulations.

III. COMPLIANCE WITH PROJECT ELIGIBILITY CRITERIA

A. General criteria for project eligibility

- 3.1 The financing of this project for strengthening the SB is consistent with the general MIF objective of encouraging efforts by the region's countries to adopt development strategies based on sound economic policies aimed at promoting greater private investment. This proposal is also fully compatible with the eligibility criteria of the Technical Cooperation Facility as set forth in the Agreement Establishing the MIF, Article III, Section 1(e)(i) of which establishes that the resources of the Facility will be used, among other purposes, to provide support for developing and strengthening financial systems to develop sound prudential safeguards, including accounting and disclosure standards, and institutions to administer them".

IV. COMPATIBILITY WITH THE BANK'S COUNTRY STRATEGY

- 4.1 One of the Bank's top priorities for its programs in Paraguay is that of institutional strengthening in the context of modernizing and reforming the State. In addition, the Eighth Replenishment document points out the need for the Bank to support the modernization and strengthening of public-sector institutions, as well as the establishment of suitable financial and judicial institutions. Accordingly, the present operation is fully compatible with the Bank's country strategy for Paraguay.
- 4.2 In December 1992, the Bank approved an investment sector program (currently in progress) which seeks the reform of the financial sector. One of the conditions for this loan was the adoption of the charter of the Central Bank and the new general law governing banks, finance companies and other credit institutions, both of which have been duly promulgated under that program. The present technical cooperation will reinforce the Bank's efforts to strengthen supervision of the financial system and generate the reforms needed to increase its efficiency.

V. AVAILABILITY OF MIF RESOURCES

A. Modality of financing

- 5.1 Project financing will be in the form of a grant based on the following considerations: (i) the Donors Committee declared Paraguay eligible for all forms of MIF financing on September 15, 1994; and (ii) the proposed project will serve as a catalyst for private investment as required under Article III, Section (a) of the Agreement Establishing the MIF.
- 5.2 Although support for the banking sector and the development of mechanisms for its supervision are areas traditionally covered by the IDB's lending operations, in this case the provision of nonreimbursable MIF resources for this project is justified because of the recent crisis in Paraguay's banking sector, and the adverse impact it has had on the confidence of private investors. Along with improving the efficiency of the Office of the Banking Superintendent, the proposed project will permit dissemination of relevant data on the financial system at the national and international level, which will have a positive effect on the operation of Paraguay's financial institutions, boosting the confidence of savers and promoting private investment.
- 5.3 Current Bank procedures for the procurement of goods and the awarding of contracts for services, including consulting services, will be followed. The thresholds above which international competitive bidding will be required for procurement under this program will be: US\$250,000 for goods and services and US\$200,000 for consulting services.

VI. EVALUATION

- 6.1 Six months after the final disbursement, the BCP will submit to the Bank an evaluation of the results of the program which will include at least the following: (i) an analysis of the quality of the information published, its utilization and coverage; (ii) a survey of the regulations revised, issued and implemented, and the results obtained once they are put into practice; (iii) an analysis of the qualifications attained by officials that received training, their turnover rate and mechanisms for staff selection, hiring and remuneration; (iv) an evaluation of operations under the newly organized SB; and (v) assessment of the quality of program coordination and administration.

MIF - FACILITY 1 PARAGUAY INSTITUTIONAL STRENGTHENING OF THE OFFICE OF THE BANKING SUPERINTENDENT		
OVERALL OBJECTIVE OF THE PROJECT		
<p>To strengthen the operations of the Office of the Banking Superintendent (SB) as a means of ensuring the efficiency and transparency of the financial system.</p>		
SPECIFIC OBJECTIVES OF THE PROJECT		
<p>To support development of the regulatory framework for the financial system, raise the qualifications and improve the selection process for inspectors, upgrade the data processing capacity of the SB, and promote efficient dissemination of relevant financial information.</p>		
SUBPROGRAM	ACTIVITIES TO BE CARRIED OUT	EXPECTED RESULTS
I. Development of regulatory framework	Recruitment of consultants specializing in the preparation of:	
	a. Regulations pursuant to the new Banking Act and the Charter of the Central Bank.	Regulations for the Banking Act completed and in force. Manuals completed and in operation (October 1997).
	b. Revision and updating of manuals of inspection procedures and evaluation of assets.	Manuals completed and in effect (June 1998).
	c. Regulations governing new financial products and foreign trade instruments.	Regulations completed and in force (June 1998).
	d. Revision and updating of the regulations governing external audits of financial entities and their relationship to the SB.	Draft regulations completed and implemented (March 1998).
	e. Regulations on new financial products (foreign exchange operations and derivatives).	Idem (March 1998).
	f. Regulations on new financial products (leasing).	Idem (June 1998).
	g. Revision and updating of fiduciary transactions.	Organization implemented and manuals completed and in effect (June 1998).
	h. Design and implementation of manuals on positions and salaries, and determination of the administrative and legal responsibilities of the SB.	Manuals implemented and new duties in effect (December 1997).

SUBPROGRAM	ACTIVITIES TO BE CARRIED OUT	EXPECTED RESULTS
II. Training of SB inspectors, personnel responsible for preparation of regulations, and analysts	Recruitment of experts to train SB personnel in: a. Credit risk analysis. b. Financial analysis of banking institutions. c. Management of data bases. d. Management of computer programs (technical software). e. Bank accounting. f. Statistical techniques. g. Foreign trade operations. h. Leasing operations and monitoring of deposits. i. Foreign exchange transactions and derivatives. j. Consolidation of financial entities. k. Auditing techniques.	Technical staff of the SB trained (October 1998).
	<u>Internships:</u> a. Banking supervision using remote processing (Peru). b. Supervising new financial products (Costa Rica). c. Banking supervision (Mexico and Uruguay). d. Fiduciary transactions (Colombia). e. Data publication and dissemination systems (Chile). f. Operation of a Credit Risk Center (Bolivia).	Personnel trained (June 1998).
III. Additional equipment for the SB	Procurement, installation and placement in operation of computer equipment.	Data processing systems modernized; inspectors equipped with laptops for field work (March 1998).
IV. Institution of an appropriate system for collection, publication and dissemination of financial data	a. Recruitment of an expert to design the methodology for analysis and classification of data for publication. b. Recruitment of an expert to design and equip the office for dissemination of data.	Data publication office created and in operation (March 1998).
V. Project coordination	Technical administration of the project; preparation of the program of activities and respective schedule; supervision of tasks carried out by consultants and counterpart personnel.	Successful execution and supervision of the project; on-time completion and effective performance of the tasks under subprograms (December 1998).

PROPOSED RESOLUTION

PARAGUAY. TECHNICAL COOPERATION PROGRAM FOR THE INSTITUTIONAL STRENGTHENING
OF THE BANKS SUPERINTENDENCY

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Banks Superintendency of the Central Bank of Paraguay and to adopt such other measures as may be pertinent for the execution of the plan of operations referred to in Document MIF/AT-_____with respect to a technical cooperation, the purpose of which is the Institutional Strengthening of the Banks Superintendency.

2. That up to the amount of US\$1.200.000 is authorized for the purpose of this resolution, chargeable to the Technical Cooperation Facility of the Multilateral Investment Fund.

3. That the above mentioned sum is to be provided on a non-reimbursable basis.