

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND

**PARAGUAY**

**REGULATORY STRENGTHENING OF PARAGUAY'S  
COOPERATIVE SECTOR**

**(TC-0204000)**

**DONORS MEMORANDUM**

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## CONTENTS

### EXECUTIVE SUMMARY

I.	BACKGROUND AND RATIONALE .....	1
A.	The cooperative sector in Paraguay .....	1
B.	Regulation .....	2
C.	Project rationale and approach.....	3
D.	Strategy of the MIF and the Bank .....	3
II.	DESCRIPTION.....	4
A.	Objectives .....	4
B.	Description and components .....	4
III.	COST AND FINANCING.....	6
A.	Cost .....	6
B.	Project sustainability .....	7
IV.	EXECUTING AGENCY AND EXECUTION MECHANISM.....	7
A.	Executing agency .....	7
B.	Execution mechanism.....	7
C.	Execution and disbursement periods .....	9
D.	Procurement .....	9
E.	Status of project preparation .....	10
V.	MONITORING AND EVALUATION .....	10
A.	Monitoring .....	10
B.	Evaluations.....	10
VI.	PROJECT BENEFITS AND RISKS.....	11
VII.	ENVIRONMENTAL AND SOCIAL ANALYSIS .....	11

## **ANNEXES**

Annex I	Logical Framework
Annex II	Detailed Budget
Annex III	Table of similar or related projects

## **APPENDICES**

Proposed resolution

### **INFORMATION AVAILABLE IN THE MIF TECHNICAL FILES**

- Response to recommendations from the POC included in the Donors Memorandum
- Operating Regulations for the project
- General framework for regulation and oversight of INCOOP cooperatives
- Approved project profile and the MIF eligibility memorandum
- MPPMR for the project
- Institutional analysis of the PEU
- Procurement plan
- Financial performance indicators of cooperatives as a result of the project
- Areas of qualitative improvements in cooperatives as a result of the project
- Draft framework agreement between cooperatives and PEUs
- CESI minutes

## **ABBREVIATIONS**

CENCOPAN	Central de Cooperativas del Área Nacional Ltda.
CESI	Committee on Environment and Social Impact
CONPACOOOP	Confederación Paraguaya de Cooperativas [Paraguayan Confederation of Cooperatives]
DGRV	German Cooperative and Raiffeisen Confederation
FECOPROD	Federación de Cooperativas de Producción Ltda.
INCOOP	Instituto Nacional de Cooperativismo [National Institute of Cooperativism]
MIF	Multilateral Investment Fund
PEU	Project executing unit
TMC	Technical management committee

**REGULATORY STRENGTHENING OF PARAGUAY'S  
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(TC-0204000)**

**EXECUTIVE SUMMARY**

<b>Executing agency:</b>	Ministry of Finance—Project Executing Unit (PEU)		
<b>Beneficiaries:</b>	Paraguayan cooperatives engaged in financial intermediation activities and approximately 350,000 members		
<b>Financing:</b>	Modality:	Nonreimbursable	
	MIF Window IIIA:	US\$1,400,000 (70%)	
	Local counterpart:	US\$ 600,000 (30%)	
	Total:	US\$2,000,000 (100%)	
<b>Calendar:</b>	Execution period:	36 months	
	Disbursement period:	42 months	
<b>Objectives:</b>	The general objective of the project is to help deepen financial services in Paraguay, in order to reach an increasing number of customers, particularly in rural areas. The purpose is for at least 20 cooperatives engaged in financial intermediation activities to attain compliance with the new regulatory and oversight framework implemented in Paraguay.		
<b>Description:</b>	The project is comprised of two components, which are geared toward: (i) providing direct technical assistance to between 20 and 25 cooperatives engaged in financial intermediation activities, strengthening their management skills and ensuring that they have the capacity to align their systems with the new regulatory framework; and (ii) transferring knowledge and training to the cooperative sector in general, with respect to best practices to attain compliance with the new oversight regulations.		
<b>Special contractual conditions:</b>	The following will be conditions precedent to the first disbursement: (i) selection of the project coordinator in accordance with Bank procedures; (ii) approval of the project’s Operating Regulations by the board of directors of Confederación Paraguaya de Cooperativas [Paraguayan Confederation of Cooperatives] (CONPACOOOP) and Instituto Nacional de Cooperativismo [National Institute of Cooperativism] (INCOOP); and (iii) signature by the PEU of the respective coordination and implementation agreements with the aforementioned entities.		

**Exceptions to Bank policy:** None.

**Social and environmental review:** The Committee on Environment and Social Impact (CESI) reviewed and approved the abstract for the project at meeting 31-06 of 28 July 2006.

**Coordination with other donors:** The project team consulted with various international cooperation agencies that actively support the financial sector, particularly the German Cooperative and Raiffeisen Confederation (DGRV), to coordinate support activities for the cooperatives.

## **I. BACKGROUND AND RATIONALE**

### **A. The cooperative sector in Paraguay**

- 1.1 The Paraguayan financial sector is comprised of a number of actors, including private banks, financial companies, public financial institutions, home savings and loan associations, insurance companies, and cooperatives. The Government of Paraguay has recognized the need to prioritize reforms in this sector that ensure the country's financial sustainability, and has assumed important commitments to make sure that its policies are aimed at: (i) reforming legislation applicable to the financial sector; (ii) strengthening banking supervision; (iii) strengthening payment systems; (iv) consolidating public financial institutions; and (v) extending supervision and regulation to the cooperative sector.
- 1.2 The strengthening of the cooperative sector is one of the thrusts of this policy, particularly given its weight in the country's productive and economic activities. The cooperative sector comprises some 600 cooperatives and accounts for 24% (US\$780 million) of the financial system's total assets, 27% of the system's credit portfolio, and 13% of public savings. In 2004, the cooperative sector's assets grew by 24%, compared to 14% for the banking sector.
- 1.3 In addition, it is estimated that more than 700,000 people (30% of the economically active population (EAP)) are cooperative members, most of them middle to low income. Many of those people do not have access to financial banking services, largely due to the minimum requirements to open an account and loan eligibility requirements. Additionally, recent studies of the microfinance sector estimate that 30% of the portfolio of cooperatives is concentrated in microenterprises, which are considered to play a highly significant role in the rural productive sector.<sup>1</sup>
- 1.4 The sector is structured into three levels of organization: (i) the cooperatives; (ii) federations or organizations of cooperatives; and (iii) one confederation. There are currently two federations of cooperatives, with approximately 150 cooperatives each; seven organizations of cooperatives, with some 20 to 50 cooperatives each; and one confederation. While a clear distinction can be made by type of activity and focus between savings and loan, production, and multiservice cooperatives, for regulatory purposes, all cooperatives engaged in financial intermediation activities will be subject to the regulations.<sup>2</sup>

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<sup>1</sup> CENCOPAN/DGRV 2006 and "Design of a Credit Program Targeting Rural Micro and Small Enterprises in Paraguay." Consulting Report, October 2005.

<sup>2</sup> The General Regulatory and Oversight Framework for Cooperatives classifies cooperatives in the following categories: (i) Type A, which includes the 20 largest savings and loan associations, and the 20 largest production cooperatives; (ii) Type B, which includes the next 100 largest savings and loan associations, and the next 30 largest production cooperatives; and (iii) Type C, which includes the remaining small cooperatives that generally operate within a very limited geographical area. Of the total number of cooperatives, 78% are savings and loan associations, 14% are production cooperatives, and 7% are multiservice or housing cooperatives.

- 1.5 The chart below presents the system's 20 most important cooperatives (savings and loan and production cooperatives) as of December 2004.

**20 Largest Cooperatives in Paraguay's Cooperative System**  
**Total Assets in US\$ as of December 2004**

Cooperative	% of total system	Total assets
UNIVERSITARIA Savings and loan association	11	87,089,813
COLONIAS UNIDAS Cooperativa Agropecuaria Industrial Ltda.	10	75,685,897
FERNHEIM Cooperativa Colonizadora Multiactiva Fernheim Ltda.	7	58,247,428
CHORTITZER KOMITEE Sociedad Cooperativa Colonizadora Ltda.	7	57,403,164
COOMECHIPAR Coop. prod., cons., savings, loan, prof. health services	4	29,829,111
PINDO Cooperativa de Producción Agropecuaria Pindo Ltda.	3	24,710,776
CREDIT UNION Multiservice savings and loan cooperative	3	24,690,772
MEDALLA MILAGROSA Multiservice savings and loan, services cooperative	3	24,341,867
NEULAND Cooperativa Multiactiva Neuland Ltda.	3	23,249,396
SAN CRISTOBAL Cooperativa San Cristobal Ltda.	3	22,409,716
SOMMERFELD Cooperativa Agrícola Ltda.	2	15,652,014
NIKKEI Central Agrícola de Cooperativas Ltda.	2	15,531,601
YGUAZU Agricultural cooperative	2	15,311,115
LA PAZ Cooperativa La Paz Agrícola Ltda.	2	14,664,477
PIRAPO Cooperativa Pirapó Agrícola Ltda.	2	14,630,430
8 DE MARZO Multiservice savings and loan, cons., prod., services cooperative	2	13,542,687
UNICOOP Central Nacional de Cooperativas Unicoop Ltda.	2	13,304,682
SAN LORENZO Multiservice savings and loan, services cooperative	1	10,361,098
FRIESLAND Cooperativa Agrícola Friesland Ltda.	1	9,654,969
COPRONAR Cooperativa de Producción Agropecuaria Naranjal Ltda.	1	9,094,153
<b>SUBTOTAL</b>		<b>559,405,166</b>
<b>TOTAL COOPERATIVE SYSTEM</b>		<b>785,766,277</b>

## B. Regulation

- 1.6 Law 2157-03 was passed in 2003, which established INCOOP as the sector's regulator.<sup>3</sup> In December 2004, INCOOP issued the regulatory framework for the sector, as well as the corresponding charts of accounts, and the various guidelines and rules for oversight, liquidation, dissolution, audit, and monitoring of the cooperatives. An important aspect of regulation in the case of Paraguay is that, under the new rules, INCOOP is responsible for the financial oversight and control of cooperatives, which implies a larger scope for work that it has traditionally carried out as a merely representative agency. INCOOP's new and broader functions will be strengthened through another project the Bank is implementing simultaneously (PR-L1011). That project is geared toward strengthening INCOOP's capacity as regulator in various areas, including: (i) improvement of its

<sup>3</sup> This bill was initially conceived in 2002, when the Bank and the Government of Paraguay already recognized the importance of the cooperative sector and the need to strengthen it. However, the issue of regulation and oversight of the sector, which was the subject of internal political and social debate for a number of years, was only recently well-defined in 2005, with final approval by Congress and the executive branch of the regulations establishing the current regulatory framework.

capacity for field audits; (ii) improvement of offsite audit and analysis processes; and (iii) development of manuals of processes and procedures to be applied under the new law.

- 1.7 **Problems confronted by the cooperatives.** Application of the new regulatory framework to cooperatives and implementation of activities through the INCOOP strengthening project will have a significant impact on the work of the cooperatives. Specifically, the cooperatives face a number of challenges and problems that must be addressed if they are to attain compliance with the regulatory framework, including: (i) the lack of information and control systems enabling them to make rapid and effective management decisions, and to report frequently and promptly on their financial position to supervisory agencies; (ii) the lack of business planning systems that permit accurate estimates of costs and pricing for their products; (iii) weak financial management, which prevents the effective use of liquid assets and effective management of financial risks; and, lastly, (iv) technical weaknesses in management of the credit portfolios of the cooperatives, particularly with respect to risk analysis, portfolio classification, measurement of delinquency, and recovery systems. Failure to correct these problems would prevent the cooperative sector from attaining compliance with the regulations, creating a potential gap between the regulations and the business practices of the cooperatives, which could cause a loss of confidence in the sector, as well as a loss of its credibility.

#### **C. Project rationale and approach**

- 1.8 It is important to reiterate that the Bank is supporting the Government of Paraguay in its efforts to strengthen financial intermediation activities through the Programmatic Public Financial Reform Operation (PR-L1012), in addition to the operation to support the regulator mentioned above. This project complements the Bank's other operations and is essential to help the cooperatives adapt their systems and attain compliance with the new regulations. The country's cooperatives, represented by Central de Cooperativas del Área Nacional Ltda. (CENCOPAN) and Federación de Cooperativas de Producción Ltda. (FECOPROD), which are the country's two most important organizations of cooperatives, have already expressed an interest in participating in this project, as they understand the need to adapt to the regulations. The technical cooperation operation of the Multilateral Investment Fund (MIF) will help the cooperative sector align its systems with the new prudential regulations, both in the short and medium term.

#### **D. Strategy of the MIF and the Bank**

- 1.9 The Bank's strategy with Paraguay is focused on collaborating with the country in its efforts to overcome its main development challenges, in order to promote sustainable growth and poverty reduction. To that end, the Bank's actions are focused on supporting: (i) the strengthening of governance; (ii) regional and global integration and the creation of the conditions necessary to permit increased participation by the private sector and greater competitiveness; and (iii) efforts to reduce poverty and improve the quality of life of the low-income population. The

proposed operation is consistent with this strategy by helping promote the greater competitiveness of a group of private financial intermediation entities.

## II. DESCRIPTION

### A. Objectives

- 2.1 The general objective of the project is to help deepen financial services in Paraguay, in order to reach an increasing number of customers, particularly in rural areas. The purpose is for at least 20 cooperatives engaged in financial intermediation activities to attain compliance with the new regulatory and oversight framework implemented in Paraguay.

### B. Description and components

- 2.2 The project is comprised of two components, which are geared toward: (i) providing direct technical assistance to between 20 and 25 cooperatives engaged in financial intermediation activities, strengthening their management skills and ensuring that they have the capacity to align their systems with the new regulatory framework; and (ii) transferring knowledge and training to the cooperative sector in general, with respect to best practices to attain compliance with the new oversight regulations.
- 2.3 **Component I: Technical assistance to attain compliance with regulations (MIF: US\$1,109,000; Counterpart: US\$465,250).** The project provides for a number of institutional strengthening activities for the cooperatives, with special emphasis on the administrative area, risk management, technology and financial management, and personnel training, such that the savings and loan activities of the cooperatives are based on the prudential parameters established by INCOOP, thus enhancing the security and soundness of their operations.
- 2.4 Technical assistance will be provided to between 20 and 25 cooperatives selected through a qualification process agreed by INCOOP and the organizations of cooperatives (CENCOPAN and FECOPROD) that certify the capacity of the corresponding counterpart. The details of this selection process and the minimum criteria are detailed in the Operating Regulations (found in the project technical files).
- 2.5 One of the first activities to be carried out as part of the project, which is of utmost importance, is the institutional diagnostic of the cooperatives. This diagnostic will permit a deeper understanding of the demand for technical advisory and training services, and the specific focus of technical assistance provided under the project.
- 2.6 For reference purposes, the main areas of technical assistance, which will be defined, validated, and described in detail once the diagnostics are completed, will be:
- 2.7 **Institutional development in operations management:** Based on the results of the internal control system diagnostic, possible deficiencies will be identified in the

processes of defining and implementing policies and procedures for institutional and operational management and control related to administration of the cooperatives. Efforts will also be made to strengthen the business focuses in the areas of policies and practices for good institutional governance by defining, developing, and implementing a standardized business planning process.

- 2.8 **Institutional development in risk management:**<sup>4</sup> Policies and practices will be formulated, along with manuals for management of the cooperatives' most common risks, i.e. credit, liquidity, operating, and money laundering risks. The main activities to be carried out in this area will be: (i) definition of policies for evaluating each of those risks; (ii) application of technical systems for risk management; (iii) improvement of policies and procedures manuals for risk assessment and management; and (iv) training of key personnel in these areas.
- 2.9 **Technological development:** Systems will be developed for risk control and planning. In particular, applications will be identified for (i) preventing credit risk situations, (ii) determining liquidity gaps, and (iii) evaluating credit, e.g. credit scoring, among others. From the standpoint of the internal control system, efforts will be made to establish coordinated and compatible information systems that enable the cooperatives to comply with INCOOP's oversight requirements, including the preparation and presentation of financial statements, reporting to the credit bureau, and reports on compliance with technical limits.
- 2.10 **Financial management:** This area will seek to improve the institutional practices for managing the cooperative's other assets, capital formation, management and control of unproductive assets, and appropriate financing of the cooperative's assets. This area of technical assistance will also help the cooperatives implement the new standardized chart of accounts for cooperatives required by INCOOP.
- 2.11 As part of the results to be verified with respect to the outputs that will be produced by this component, the cooperatives selected are to demonstrate that they: (i) have and apply necessary and sufficient policies and procedures to meet their information requirements related to planning, management, and strategic and operational management and oversight; (ii) have and apply policies and procedures to identify, evaluate and manage, and administer business risks; (iii) have and apply necessary and sufficient policies and procedures to meet the information, regulatory, and prudential requirements of INCOOP (onsite, offsite, and external audits);<sup>5</sup> and (iv) have the capacity to periodically prepare consistent and standardized financial and operational reports using upgraded information systems.
- 2.12 **Component II: Dissemination of good practices and regulatory monitoring (MIF: US\$210,000; counterpart: US\$84,750).** As a complement to the direct technical assistance component, this component is geared toward enabling the

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<sup>4</sup> Risk assessment is considered to be a basic and critical component of comprehensive internal control systems. The frame of reference was developed based on the COSO Report and the COSO-ERM.

<sup>5</sup> Refers to both onsite audits conducted at the cooperative, and offsite audit work done at INCOOP's offices.

dissemination and transfer of technology and knowledge to the cooperative sector in general, on issues surrounding the new regulations and the necessary processes to attain compliance. At least 40 additional cooperatives are expected to benefit from this process.

- 2.13 The above will be achieved through training sessions intended to facilitate the following, among other: (i) structuring and strengthening of effective internal control systems, specifically their control environment, risk assessment, and information components; (ii) establishment of good governance policies and procedures; (iii) formulation of business plans; (iv) comprehensive management of credit, liquidity, operating, and money laundering risks; (v) financial management; and (vi) compliance with INCOOP's management and risk regulations.
- 2.14 Dissemination and training activities will be coordinated with CONPACOOOP and INCOOP. The organizations of cooperatives defined in the first component, together with the PEU, will be responsible for their design and implementation. It is also anticipated that the lessons learned, manuals and procedures prepared, and systematization of all the project's activities will be permanently established in the organizations and federations of cooperatives, particularly CENCOPAN and FECOPROD, and others, including CONPACOOOP, for all relevant purposes.

### III. COST AND FINANCING

#### A. Cost

- 3.1 The total budget for the project is US\$2 million. Of that total, US\$1.4 million (70%) will be contributed by the MIF and US\$600,000 (30%) by the counterpart, of which 50% will be in cash. The MIF resources will be used to cover the costs of specialized consulting assignments, seminars, courses, and technical assistance for the cooperatives.

**Regulatory Strengthening of Paraguay's Cooperative Sector (TC-0204000)**  
**Detailed Budget Paraguay**

	MIF	Counterpart	Total
<b>Component I - Technical assistance for attaining compliance with regulations</b>			
Administrative and institutional development	228,000	132,000	360,000
Institutional development in risk management	405,000	148,000	553,000
Technological development	280,000	101,250	381,250
Financial management	196,000	84,000	280,000
<b>Total component I</b>	<b>1,109,000</b>	<b>465,250</b>	<b>1,574,250</b>
<b>Component II - Dissemination of good practices and regulatory monitoring</b>			
<b>Total component II</b>	<b>210,000</b>	<b>84,750</b>	<b>294,750</b>
Monitoring, evaluation, and audits	81,000	50,000	131,000
1. Project executing unit	50,000	50,000	100,000
2. Evaluations, audits, and contingencies	31,000		31,000
<b>Total project</b>	<b>1,400,000</b>	<b>600,000</b>	<b>2,000,000</b>
	<b>70%</b>	<b>30%</b>	

## **B. Project sustainability**

- 3.2 The project proposes a number of activities designed to give a significant boost to cooperatives attempting to align their financial activities with the new regulations. In this regard, the project is sustainable at two different levels: (i) on the one hand, improvement in the financial administration and management capacities of each of the cooperatives participating in the project will ensure their sustainability in the medium and long term by giving a mark of professionalism to their services and processes, thus leaving them better prepared in the event of systemic risks; and (ii) on the other hand, strengthening of the most important cooperatives in terms of volume of business is expected to have a multiplier effect on the sector's other cooperatives, through the diverse formal and informal exchange mechanisms that exist within the sector.

## **IV. EXECUTING AGENCY AND EXECUTION MECHANISM**

### **A. Executing agency**

- 4.1 As discussed in the background section, the Bank is supporting the Government of Paraguay in a series of financial sector reforms geared toward strengthening oversight and regulatory authorities, including the cooperative sector. In this regard, the Ministry of Finance is the reference entity and execution agency for a number of projects that seek to meet these needs in a coordinated manner. Given that this project is aimed at strengthening and supporting cooperatives in the process of adapting to the new oversight regulations, it was considered appropriate to select a PEU from the Ministry of Finance to be responsible for project implementation. Selection of the PEU will ensure the coordination and compatibility of all the Bank's operations.<sup>6</sup> Additionally, from a coordination and implementation standpoint, the PEU would rely on CONPACOOP as the sector's representative, and INCOOP as the regulator.
- 4.2 The PEU is qualified to execute this project because: (i) it will be the executing agency and reference entity for the Programmatic Public Banking Reform Operation, and in conversations with the different representatives of the cooperative sector, it was identified as the most appropriate entity to supervise this operation; (ii) the PEU has implemented projects with the financial and cooperative sector in the past and has worked with funds from bilateral support agencies; and (iii) the Bank's Country Office recommended the PEU after completing an institutional evaluation.

### **B. Execution mechanism**

- 4.3 For purposes of execution, the project will use a technical management committee (TMC) and the PEU from the Ministry of Finance. The TMC is comprised of one

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<sup>6</sup> The Programmatic Public Financial Reform Operation (PR-L1012), the INCOOP support project (PR-L1011), and continuation of operations to support financial oversight (ATN/MT-7926-PR and ATN/SF-5609-PR).

representative each from the Ministry of Finance, CONPACCOOP, and INCOOP, and specialists from the organizations of cooperatives responsible for the project's technical components.<sup>7</sup>

- 4.4 The TMC will be responsible for: (i) a technical review of the design and procedural aspects for implementation of the technical assistance and training components; and (ii) approval of the cooperatives selected to participate that comply with the eligibility criteria set forth in the project's Operating Regulations.
- 4.5 The PEU is responsible to the Bank for project execution and is to be comprised of a general coordinator and a specialist in Bank standards and procedures. The PEU will be responsible for: (i) management of the project activities pursuant to the work plan and Operating Regulations; (ii) procurement of goods and services; (iii) supervision of consultants contracted; (iv) approval of payments to consultants contracted for technical assistance based on both improvements in the cooperatives' indicators and progress towards compliance with INCOOP's new regulations; (v) control over budget administration and management through established procedures; (vi) processing of requests for disbursements from the Bank's contribution; (vii) preparation of account statements for resources used; (viii) monitoring of the performance indicators established in the logical framework; (ix) presentation of administrative and technical reports to the Bank; and (x) coordination of the necessary actions with representatives from the cooperative sector that support the project.
- 4.6 The PEU will implement the project in accordance with the Operating Regulations, which must be in force as a condition precedent to the first disbursement. The Operating Regulations contain: (i) a detailed description of the components; (ii) the minimum required content of proposals to be presented by the cooperatives to access the project resources; (iii) the procedure for selection and approval of the aforementioned proposals; (iv) the mechanism for fund application; and (v) the functions and responsibilities of the PEU.
- 4.7 For purposes of effectively coordinating its functions and participation, the PEU will sign a Coordination Agreement with the technical agencies representing the sector, which will be the technical counterparts. The signing of that agreement will be a condition precedent to the first disbursement. The profiles and functions of the members of the PEU and its technical counterparts are included in the Operating Regulations. The project's general coordinator will be responsible to the Bank for implementing, monitoring, and tracking the project's activities and attaining its objectives.
- 4.8 **Eligibility criteria for cooperatives.** As a necessary condition for selection, the cooperatives must demonstrate that, among other: (i) they engage in financial intermediation activities; (ii) they have sufficient liquidity to contribute the

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<sup>7</sup> In principle, the technical entities will be the two organizations of cooperatives, i.e. FECOPROD and CENCOPAN.

counterpart and have been authorized by the board of directors to make commitments to the project and the PEU for a period of not less than four years; (iii) they have a written agreement signed by the board of directors with INCOOP of their intentions to become subject to the new oversight regulations; (iv) they are in the process of attaining compliance with the new regulations, and will continue those efforts throughout the project; and (v) they are operating in accordance with the financial discipline imposed by INCOOP, or, failing that, will begin to operate, control, and govern themselves pursuant to that system of financial monitoring and control.

- 4.9 In addition to the basic selection criteria, the TMC, in coordination with INCOOP, is to develop a list of factors that will be used to prioritize qualifying entities. In other words, although more than 40 to 50 cooperatives could qualify for technical assistance, only 20 to 25 will be able to access the benefits of the project. In order to select those 20 to 25 cooperatives, the TMC and INCOOP will take into consideration the following basic criteria: (i) significant recent growth in assets and possibilities of greater growth in the medium term; (ii) a large number of members and a broad scope of operations; (iii) independent attainment of a high level of compliance with the established regulations, particularly with respect to the required financial indicators; and (iv) commitment to a larger counterpart investment.
- 4.10 During project implementation, the PEU will monitor the activities corresponding to the technical assistance and training components for each of the cooperatives, in order to verify that they are fulfilling their commitments and counterpart obligations. The PEU will also verify that the cooperatives are moving forward in their process of attaining compliance with the regulations, according to the baseline established at the beginning of the project. This will be verified twice for each cooperative, once upon disbursement of 30% of the Bank's contribution for technical assistance for each cooperative, and again upon disbursement of 70%. In the case of a negative difference of more than 30% in the proposed indicators according to the baseline, or evidence of noncompliance with the oversight regulations, the PEU may suspend future project disbursements until corrective measures have been taken to improve the indicators.

**C. Execution and disbursement periods**

- 4.11 The project execution period will be 36 months, with an anticipated disbursement period of 42 months. The Bank will establish a revolving fund for a maximum of 10%.

**D. Procurement**

- 4.12 The PEU will procure goods and related services and engage consulting services in accordance with Bank policies (documents GN-2349-7 and GN-2350-7). The work and documents produced by the consultants under the consulting contracts financed with the project resources will be made available to all of the sector's cooperatives, irrespective of whether they have participated in the project. The PEU and technical

and coordination counterparts (CONPACCOOP and INCOOP) will be responsible for disseminating the materials and documents to their members, in order to reach the greatest number of cooperatives possible.

**E. Status of project preparation**

- 4.13 The draft terms of reference have been prepared for the main project consultants, as well as the Operating Regulations. Drafts of agreements between the PEU and technical counterparts are also available.

**V. MONITORING AND EVALUATION**

**A. Monitoring**

- 5.1 **Monitoring reports.** The PEU will present all of the project progress reports to the Bank's Country Office in Paraguay within 30 days of the end of each semester, and a final report within 30 days of the final disbursement. The reports are to follow a format previously agreed with the Bank, and will include a work plan and disbursement calendar for the following semester, all project activities and financing executed to date, the results of the cooperative diagnostics and their work plans, as well as the results achieved measured according to the indicators and means of verification set forth in the project's logical framework (Annex I). The specialized entity that coordinates and implements technical assistance and training will establish a baseline that includes: (i) basic financial indicators (agreed with INCOOP) for all participating cooperatives as of the same date; (ii) the level of compliance with INCOOP's regulations (based on a matrix to be prepared at the beginning of the project); and (iii) the profile of the typical saver and borrower of the cooperatives.

**B. Evaluations**

- 5.2 The project includes two evaluations to be conducted by a consultant specializing in matters related to the oversight and control of regulated and unregulated financial entities. That consultant will be selected and hired directly by the Bank. The consultant will be contracted for the first evaluation upon disbursement of more than 50% of the total, or at the end of the first 18 months since the agreement was signed with the Bank. This evaluation will cover a minimum of the following: (i) process of selecting the beneficiary cooperatives; (ii) progress compared to the baseline; (iii) improvements in the logical framework indicators; (iv) the degree of progress in attaining compliance with all of INCOOP's regulations, including the frequency and timeliness of remittal of oversight reports; (v) the institutional capacity of the executing agency; and (vi) compliance with the *pari passu* of the counterpart in accordance with the Operating Regulations.
- 5.3 The final evaluation will be performed when 90% of the project resources have been disbursed. In addition to updating the data obtained during the midterm evaluation, the final evaluation will be focused on: (i) gathering information on best practices in strengthening the cooperative sector; (ii) evaluating the level of

compliance of the 20 to 25 cooperatives that participated in the project; (iii) analyzing how the technical assistance and training services could be replicated by CONPACCOOP with other cooperatives that did not participate in the project; and (iv) lessons learned regarding implementation, the selection of participating cooperatives, and the level of involvement of the cooperatives.

## VI. PROJECT BENEFITS AND RISKS

- 6.1 **Benefits.** The direct beneficiaries of the project will be the 20 to 25 cooperatives that will receive training and specialized technical assistance to improve their financial and business management, and the 40 or more cooperatives that will receive training and regulatory monitoring. The end beneficiaries of the project will be the more than 350,000 customers and/or users of the financial intermediation cooperatives, most of whom are low- to middle-income individuals who will enjoy access to more stable and secure financial services.
- 6.2 **Risks.** The project presents three main *risks*: (i) given that the project will be implemented by an executing unit within the Ministry of Finance rather than by an entity directly representing the sector, there is a risk that the cooperatives will not show a demand for the project's services and that they will fail to clearly understand the benefits of the project components; (ii) some cooperatives may not want, or may be unable, to comply with the established regulations, which would make the training and technical assistance provided by the project irrelevant; and, finally, (iii) there could be disagreement and a lack of motivation to implement the changes resulting from the technical assistance.
- 6.3 These risks will be mitigated by a fundamental aspect of the project, which is coordination with, and inclusion of, representatives from the sector in the execution mechanism. The project provides for the involvement of the different stakeholders from the cooperative sector, including INCOOP, as the regulator, CONPACCOOP, as the sector representative, and the two most important federations, FECOPROD and CENCOPAN. All of these entities have demonstrated a significant degree of interest in, and recognition of, the need for the sector to be governed by the new oversight rules. Beyond coordination and guidance, the project will seek to create opportunities for open debate, discussion, and above all, raising of awareness of the need for cooperatives to incorporate the changes for the benefit of their members and the financial sector as a whole.

## VII. ENVIRONMENTAL AND SOCIAL ANALYSIS

- 7.1 Committee on Environment and Social Impact reviewed and approved the project abstract at meeting 31-06 of 28 July 2006 and had no comments on the project.

**REGULATORY STRENGTHENING OF PARAGUAY'S COOPERATIVE SECTOR (TC-0204000)**  
**LOGICAL FRAMEWORK**

Narrative summary of objectives	Indicators	Means of verification	Assumptions
<b>Goal</b>			
To help deepen financial services in Paraguay, in order to reach an increasing number of customers, particularly in rural areas.	Three years after the end of the project, (i) the cooperatives maintain their member base, particularly low-income and rural members; and (ii) reach 20% more customers in rural areas.	<ul style="list-style-type: none"> <li>Statistical reports from cooperatives and organizations of cooperatives</li> <li>Statistical reports from INCOOP</li> </ul>	There is a real demand for financial services from the rural population.
<b>Purpose</b>			
At least 20 financial intermediation cooperatives have attained compliance with the new regulatory and oversight framework implemented in Paraguay.	<p>By the end of the first year of the project, at least four participating cooperatives are in full compliance with the regulatory framework.<sup>1</sup></p> <p>By the end of the second year of the project, at least 12 participating cooperatives are in full compliance with the regulatory framework.</p> <p>By the end of the project, at least 20 participating cooperatives are in full compliance with the regulatory framework.</p>	<ol style="list-style-type: none"> <li>Baseline</li> <li>Periodic reports from the cooperatives and INCOOP</li> <li>Project evaluations</li> <li>Semiannual reports from the PEU PPMR and PCR</li> <li>Reports from technical and financial visits by the IDB/MIF</li> <li>Reports and annual reports from cooperatives</li> </ol>	The cooperatives maintain their interest in and commitment to complying with all the oversight provisions and regulations.
<b>Component 1</b>			
At least 20 financial intermediation cooperatives have received technical assistance to attain compliance with regulations.	<ol style="list-style-type: none"> <li>By the end of the first year of the project: <ol style="list-style-type: none"> <li>At least four participating cooperatives are in full compliance with the regulatory framework.</li> <li>At least seven cooperatives issue their financial reports to INCOOP in a timely manner and those reports are approved.</li> <li>At least seven cooperatives have implemented the standardized chart of accounts for cooperatives.</li> </ol> </li> </ol>	<ol style="list-style-type: none"> <li>Evaluations of workshops and seminars</li> <li>Project evaluations</li> <li>Semiannual PEU reports</li> <li>Reports from visits by the IDB/MIF</li> <li>PPMR and PCR</li> <li>Reports from technical and financial visits by the IDB/MIF</li> <li>Reports and annual reports from cooperatives</li> </ol>	<p>There is a high level of coordination between the PEU and the sector's other stakeholders, such as organizations of cooperatives, CONPACOO, as the representative agency, and INCOOP, as the regulator.</p> <p>Cooperatives participating in the project remain interested in becoming well-versed in the requirements of the new regulations.</p>

<sup>1</sup> In accordance with the INCOOP general framework for regulation and oversight and the proposed financial indicators for project monitoring, both of which are in the project technical files.

Narrative summary of objectives	Indicators	Means of verification	Assumptions
	<ul style="list-style-type: none"> <li>d. At least seven cooperatives have implemented a technological system for the prevention of portfolio and/or liquidity risks.</li> <li>2. By the end of the second year of the project:               <ul style="list-style-type: none"> <li>a. At least 12 participating cooperatives are in full compliance with the regulatory framework.</li> <li>b. At least 14 cooperatives issue their financial reports to INCOOP in a timely manner and those reports are approved.</li> <li>c. At least 14 cooperatives have implemented the standardized chart of accounts for cooperatives.</li> <li>d. At least 14 cooperatives have implemented a technological system for the prevention of portfolio and/or liquidity risks.</li> </ul> </li> <li>3. By the end of the third year of the project:               <ul style="list-style-type: none"> <li>a. At least 20 participating cooperatives are in full compliance with the regulatory framework.</li> <li>b. At least 20 cooperatives issue their financial reports to INCOOP in a timely manner and those reports are approved.</li> <li>c. At least 20 cooperatives have implemented the standardized chart of accounts for cooperatives.</li> <li>d. At least 20 cooperatives have implemented a technological system for the prevention of portfolio and/or liquidity risks.</li> </ul> </li> </ul>		

Narrative summary of objectives	Indicators	Means of verification	Assumptions
<b>Component II</b>			
At least 40 cooperatives are trained in the use and application of INCOOP's oversight regulations.	<ol style="list-style-type: none"> <li>1. By the end of the second year of the project:               <ol style="list-style-type: none"> <li>a. At least 20 of the project's cooperatives have received training in administrative management and adaptation to regulations.</li> <li>b. At least 50% of the cooperatives that receive training issue their financial reports to INCOOP in a timely manner and those reports are approved.</li> </ol> </li> <li>2. By the end of the third year of the project:               <ol style="list-style-type: none"> <li>a. At least 40 of the participating cooperatives have received training in administrative management and compliance to regulations.</li> <li>b. At least 50% of the cooperatives that receive training issue their financial reports to INCOOP in a timely manner and those reports are approved.</li> </ol> </li> </ol>	<ol style="list-style-type: none"> <li>1. Evaluations of workshops and seminars</li> <li>2. Project evaluations</li> <li>3. Semiannual PEU reports</li> <li>4. Reports from visits by the IDB/MIF</li> <li>5. PPMR and PCR</li> <li>6. Reports and annual reports from cooperatives</li> </ol>	The participating cooperatives apply training to their respective operations.
<b>Activities</b>			
<b>Component 1: Technical assistance for attaining compliance with regulations</b> <ol style="list-style-type: none"> <li>1. Formation of the TMC and approval of the final terms of the Operating Regulations.</li> <li>2. Agreements signed with the technical counterparts.</li> <li>3. Selection of cooperatives to participate in the project pursuant to the Operating Regulations.</li> <li>4. Consulting assignment for diagnostics of cooperatives participating in the project.</li> </ol>	Subtotal: US\$1,574,250 MIF: US\$1,109,000 Counterpart: US\$ 465,250  <b>By six months into the project:</b> <ul style="list-style-type: none"> <li>➤ The TMC is formed.</li> <li>➤ Cooperation and coordination agreements are signed with the technical entities.</li> <li>➤ The 20 cooperatives that will receive technical assistance have been selected.</li> <li>➤ The baseline for the cooperatives is established.</li> <li>➤ Diagnostics have been made of the 20 participating cooperatives.</li> </ul>	<ol style="list-style-type: none"> <li>1. Accounting records of the cooperatives and the PEU</li> <li>2. Participant evaluations of courses and seminars</li> <li>3. Semiannual PEU reports</li> <li>4. Project evaluations</li> <li>5. Onsite verification</li> <li>6. Reports from the visit by the MIF</li> <li>7. PPMR and PCR</li> <li>8. Reports and annual reports from cooperatives</li> </ol>	<ul style="list-style-type: none"> <li>➤ Leaders of the cooperatives and representative agencies, i.e. CONPACOOOP and INCOOP, maintain their commitment to coordinate and participate in the project and apply the practices and procedures recommended by the technical assistance.</li> </ul>

Narrative summary of objectives	Indicators	Means of verification	Assumptions
<p>5. Development of manuals and documents for good governance practices.</p> <p>6. Development of manuals and documents for implementing business plans.</p> <p>7. Development of risk management manuals and policies.</p> <p>8. Development of manuals and policies for establishing reserves and monitoring delinquency and other financial-administrative issues.</p> <p>9. Consulting assignment for institutional development and operational management.</p> <p>10. Consulting assignment for risk management.</p> <p>11. Consulting assignment for implementation and startup of technological systems for the prevention of risks and monitoring of indicators.</p>	<p><b>By 12 months into the project:</b></p> <ul style="list-style-type: none"> <li>➤ Four cooperatives that received technical assistance are in full compliance with oversight regulations.</li> <li>➤ Documents on good governance policies and practices are completed.</li> <li>➤ Documents on risk management policies and practices are completed.</li> <li>➤ Documents on policies and practices for establishing reserves and monitoring delinquency and other financial-administrative issues are completed.</li> </ul> <p><b>By 24 months into the project:</b></p> <ul style="list-style-type: none"> <li>➤ Twelve cooperatives that received technical assistance are in full compliance with the oversight regulations.</li> <li>➤ At least 12 of the project's cooperatives have technological systems in place for the prevention of risks and monitoring of indicators.</li> </ul> <p><b>By 36 months into the project:</b></p> <ul style="list-style-type: none"> <li>➤ Twelve cooperatives that received technical assistance are in full compliance with the oversight regulations.</li> <li>➤ At least 20 of the project's cooperatives have technological systems in place for the prevention of risks and monitoring of indicators.</li> </ul>		

Narrative summary of objectives	Indicators	Means of verification	Assumptions
<p><b>Component 2: Dissemination of good practices and regulatory monitoring</b></p> <ol style="list-style-type: none"> <li>Three national training events are held for at least 40 cooperatives that engage in financial intermediation activities.</li> <li>One document management event is held with the cooperatives and federations of cooperatives.</li> </ol>	<p>Subtotal: US\$294,750 MIF: US\$210,000 Counterpart: US\$ 84,750</p> <p><b>By 18 months into the project:</b></p> <ul style="list-style-type: none"> <li>Fifteen cooperatives have been trained in attaining compliance with the new oversight regulations.</li> </ul> <p><b>By 30 months into the project:</b></p> <ul style="list-style-type: none"> <li>Thirty cooperatives have been trained in attaining compliance with the new oversight regulations.</li> </ul> <p><b>By 36 months into the project:</b></p> <ul style="list-style-type: none"> <li>Forty cooperatives have been trained in attaining compliance with the new oversight regulations.</li> </ul>	<ol style="list-style-type: none"> <li>Reports and evaluations of events</li> <li>Reports from the coordinator on events attended and presentations made</li> <li>Case study document</li> <li>Consultant document</li> <li>Semiannual PEU reports</li> <li>Reports from the visit by the MIF</li> <li>Project evaluations</li> <li>PPMR and PCR</li> <li>Reports and annual reports from cooperatives</li> </ol>	<ol style="list-style-type: none"> <li>Leaders of the cooperatives and representative agencies, i.e. CONPACOOB and INCOOP, maintain their commitment to coordinate and participate in the project, and apply the practices and procedures recommended by the technical assistance.</li> <li>Effective demand is maintained from the cooperatives to participate in training events.</li> </ol>

**TC-0204000 REGULATORY STRENGTHENING OF PARAGUAY'S COOPERATIVE SECTOR  
DETAILED BUDGET IN US\$**

	Entities	Days' work per entity	Value per day	MIF	Counterpart	Total
<b>Component I – Improvement of administrative and financial systems to attain compliance with regulations</b>						
<i>Administrative and institutional development</i>						
1. Diagnostic of internal control systems based on the components of the COSO methodology (control environment, risk assessment, information and communication, monitoring, and control activities)	25	12	400	84,000	36,000	120,000
2. Establishment of good governance policies and practices	25	12	400	84,000	36,000	120,000
3. Implementation of business planning systems	25	12	400	60,000	60,000	120,000
Subtotal				228,000	132,000	360,000
<i>Institutional development in risk management</i>						
4. Diagnostic of the financial position	25	5	350	30,000	13,000	43,000
5. Design and implementation of policies and practices, along with their respective manuals, for comprehensive management of the following risks:						
a. credit,	25	15	400	105,000	45,000	150,000
b. liquidity,	25	12	400	90,000	30,000	120,000
c. operating, and	25	12	400	90,000	30,000	120,000
d. money laundering	25	12	400	90,000	30,000	120,000
Subtotal				405,000	148,000	553,000
<i>Technological development</i>						
6. Design and implementation of early warning technological systems for administration and management of the above risks	25	20	500	175,000	75,000	250,000
7. Design and implementation of indicators pursuant to INCOOP's requirements	25	15	350	105,000	26,250	131,250
Subtotal				280,000	101,250	381,250
<i>Financial management</i>						
8. Management of formation of risk capital	25	8	350	49,000	21,000	70,000
9. Establishment of capital adequacy and provisioning levels for assets-at-risk.	25	8	350	49,000	21,000	70,000
10. Control of unproductive assets	25	8	350	49,000	21,000	70,000
11. Appropriate financing of the cooperative's assets	25	8	350	49,000	21,000	70,000
Subtotal				196,000	84,000	280,000
<b>TOTAL COMPONENT I</b>				<b>1,109,000</b>	<b>465,250</b>	<b>1,574,250</b>
<b>Component II – Dissemination of best practices</b>						
1. Strengthening of the following internal control system components: control environment, risk assessment, information and communication, and monitoring				25,000	10,000	35,000
2. Establishment of good governance policies and practices				25,000	9,000	34,000
3. Development of business plans				20,000	10,000	30,000
4. Comprehensive management of credit, liquidity, operating, and money laundering risks				25,000	16,000	41,000
5. Financial management				30,000	13,000	43,000
6. Adaptation to INCOOP's management and risk regulations				25,000	13,000	38,000
7. Systematization at the level of organizations of cooperatives				60,000	13,750	73,750
<b>TOTAL COMPONENT II</b>				<b>210,000</b>	<b>84,750</b>	<b>294,750</b>
Monitoring, evaluation, and audits						
1. Project executing unit						
a. Project coordinator – consultant	42	Months		30,000	30,000	60,000
b. Financial and operations assistant – consultant	42	Months		20,000	20,000	40,000
2. Evaluations	6,000	2		12,000		12,000
3. Audits	4,000	3		12,000		12,000
4. Contingencies				7,000		7,000
<b>TOTAL MONITORING AND EVALUATIONS</b>				<b>81,000</b>	<b>50,000</b>	<b>131,000</b>
<b>TOTAL PROJECT</b>				<b>1,400,000</b>	<b>600,000</b>	<b>2,000,000</b>

70%

30%

**PARAGUAY**  
**Regulatory strengthening of Paraguay's cooperative sector (TC-0204000)**

**A. Similar or related MIF projects**

<b>Project number / date of approval</b>	<b>Project title, executing agency, and amount</b>	<b>Date of signature and disbursement period in months</b>	<b>Amount disbursed</b>	<b>Comments</b>
ATN/MT-7926-RG  26 June 2002	Program to strengthen transparency and formalization of the financial system  Superintendency of Banks of Paraguay  MIF contribution: US\$641,000	31 July 2002	12.48%	Continuation of this operation is subject to the progress made under project PR-L1012 described below.

**B. Similar or related Bank projects**

<b>Project number / date of approval</b>	<b>Project title, executing agency, and amount</b>	<b>Date of signature and disbursement period in months</b>	<b>Amount disbursed</b>	<b>Comments</b>
ATN/SF-5609-PR  25 June 1997	Global microenterprise credit program (Phase II)  Project Technical Executing Unit  IDB contribution: US\$2.2 million	18 July 1997	75.35%	Continuation of this operation is subject to the progress made under project PR-L1012 described below.

<b>Project number / date of approval</b>	<b>Project title, executing agency, and amount</b>	<b>Date of signature and disbursement period in months</b>	<b>Amount disbursed</b>	<b>Comments</b>
PR-L1011  5 December 2006	<p>Program for institutional strengthening of the national credit union administration (INCOOP)</p> <p>Project Executing Unit for Programmatic Public Banking Operations</p> <p>IDB contribution: US\$3.6 million</p>	N/A	0%	Recently approved.
PR-L1012  9 November 2005	<p>Programmatic public financial reform operation</p> <p>Ministry of Finance</p> <p>IDB contribution: US\$30 million</p>	10 November 2005	0%	

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND

PROPOSED RESOLUTION

Paraguay. Nonreimbursable Technical Cooperation ATN/ -PR  
Regulatory Strengthening of Paraguay's Cooperative Sector

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, in the name and on behalf of the Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Finance Ministry of the Republic of Paraguay, and to take such additional measures as may be pertinent for the execution of the project proposal contained in Document AT- with respect to a technical cooperation for the regulatory strengthening of Paraguay's cooperative sector.
2. That up to the amount of US\$1,400,000, or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to the technical cooperation resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.