

**REIMBURSABLE TECHNICAL-COOPERATION PROGRAM FOR THE STRENGTHENING OF  
THE FINANCIAL SYSTEM**

(VE-0101)

**EXECUTIVE SUMMARY**

**BORROWER AND GUARANTOR:** Republic of Venezuela

**EXECUTING AGENCY:** Central Bank of Venezuela

**AMOUNT AND SOURCE:**

IDB:	US\$14.0 million (OC)
Local counterpart funding:	US\$ 6.0 million
Total:	US\$20.0 million

**FINANCIAL TERMS AND CONDITIONS:**

Amortization period:	20 years
Disbursement period:	3 years
Interest rate:	variable
Inspection and supervision:	1%
Credit fee:	0.75%

**OBJECTIVES:** This operation is aimed at stabilizing and strengthening the financial system, basically through technical assistance for the restructuring of the institutions responsible for overseeing financial activities, insuring deposits, and maintaining the stability of the system.

**DESCRIPTION:** The technical-cooperation program is structured so as to assist the Venezuelan authorities in their efforts to address two key issues affecting the condition of the financial system. The first is the stability of the system in the short run and the resulting need for immediate action. The second issue is the general weakness of the regulatory institutions and the need to strengthen them in the medium term.

This operation is part of a joint and coordinated effort by three multilateral organizations (IMF, World Bank, and IDB) to provide technical assistance. Consequently, implementing the technical-cooperation component will entail coordinated action by the Venezuelan authorities and the three multilateral organizations.

The following institutions in the Venezuelan financial sector will participate in the program: the Financial Emergency Board (JEF); the Central Bank of Venezuela (BCV); the Superintendency of Banks and

Financial Institutions (SBIF); the Bank Protection and Deposit Insurance Fund (FOGADE); the Superintendency of Insurance (SS); and the National Securities Commission (CNV).

The technical-cooperation program will cover the following general areas:

a. Immediate action

- (i) JEF Support Group functioning
- (ii) Supervision and regulatory framework in the short term
- (iii) Assistance for problem institutions and other activities

b. Institutional strengthening

- (i) Strengthening of financial supervision and regulation (SBIF)
- (ii) Strengthening of FOGADE
- (iii) Strengthening of the SS
- (iv) Strengthening of the CNV

c. Support for coordination activities

In view of the fact that some of the assistance will consist of diagnostic studies and recommendations, and that the technical-cooperation project will be carried out as part of a coordinated effort between the Venezuelan authorities and the IMF, the World Bank (WB), and the IDB, the project must be designed to permit flexibility in the specific tasks of the program, schedule of activities, and budget management.

The document describes the preliminary content of the program. The program activities will be carried out in stages on the basis of priority and logical sequence, in the following order:

- a. Activities to be carried out immediately and activities relating to diagnostic studies in each area of institutional strengthening;
- b. Activities having to do with the legal and regulatory framework and functioning of each of the supervisory institutions and the procedures for supervision;
- c. Activities to improve the efficiency of these institutions and the caliber of their staff;

- d. Remaining activities, particularly those relating to acquisition of equipment for information and data base systems, completion of the human resources development process, and streamlining of supervision procedures.

The technical-cooperation project will be carried out according to operating plans that will include activities and specific goals and objectives. An initial operating plan is envisaged for the first six months of the program. The two subsequent plans will cover 12-month periods.

The initial plan of operations will cover joint JEF, SBIF, and FOGADE activities that are to be carried out immediately and diagnostic studies in the area of institutional strengthening, particularly for SS and CNV (stage a. of the logical sequence noted above). The second plan of operations will cover mainly those activities concerned with the legal and regulatory framework, supervision procedures, operational improvements and enhancing the quality of the staff of each of the supervisory institutions: SBIF, FOGADE, SS, and CNV (stages b. and c. of the sequence). The final plan of operations will cover all remaining activities and particularly those concerned with completing the process of improving supervision procedures, human resources, and equipment (stage d. of the sequence).

To minimize possible delays in execution, activities to be carried out immediately will be financed with funds from the technical assistance services programs being funded by the IDB and the World Bank.

**ENVIRONMENTAL  
CLASSIFICATION:**

The Environment Committee, at its meeting of August 1, 1995, classified this as a Category II operation.

**BENEFITS:**

The operation will make it immediately possible to provide advisory services to address the banking crisis and, in the medium term, to make technical assistance and equipment financing available to improve the performance of the institutions responsible for financial oversight in the areas of financial intermediation, insurance, and the securities market.

**RISKS:**

The extent to which the objectives of the program can be achieved will depend largely on the participation and commitment of the local counterpart, as well as on the possibility of promptly implementing the actions and recommendations arising out of the

activities to be undertaken. The implementation of inconsistent policies in the financial sector and the persistence of macroeconomic imbalances may hinder the program's success. In order to reduce the risks associated with these contingencies, fluid communication between national authorities and the multilateral organizations will be promoted in the context of coordination of the technical assistance.

In order to facilitate execution of the technical assistance, it will be essential to ensure adequate coordination among the various national entities involved in the program. The recent formation of a working group within the JEF, the powers granted to the JEF and the role of coordination assigned to the executing agency (BCV), and the possibility that the activities having to do with each of the beneficiaries will be carried out independently, will help to reduce problems occurring during the operation.

In order to execute this technical-cooperation program, given the type of activities to be conducted and the dynamic and flexible nature of the operation, the program execution unit must be adequately staffed with both technical and administrative personnel. Accordingly, one of the components of the technical assistance will be support for coordinating technical-cooperation activities and, in particular, for strengthening the execution unit.

Administrative problems and delays in obtaining the necessary legislative approval held up the activities envisaged in the technical-cooperation component of the financial adjustment program, in which the World Bank and the IDB participated in the early 1990s. Although the present program is not wholly free of the threat of a repetition of the problems that affected the previous program, these risks will, however, be minimized in the present operation. Accordingly, the activities will be carried out immediately. To this end, activities to be accorded priority have been identified and agreed on, and funding is available to carry them out. With respect to the need for legislative approval, the banking crisis and its adverse repercussions has led to a far greater degree of consensus within the country on the need to strengthen the institutions responsible for supervision of the financial sector.

The Venezuelan authorities are making arrangements to ensure that the financing for the operation will

receive the necessary authorizations for public-sector borrowing for 1996 (national borrowing requirement - umbrella legislation) so that disbursements may commence early next year (budget act). If the necessary legislative approvals are held up, the success of the operation will be jeopardized. That financing is available for the activities to be carried out immediately (PSAT programs) will facilitate the operation.

**BANK STRATEGY IN  
THE COUNTRY:**

The proposed operation is in line with the Bank's strategy for the country. That strategy focuses on three main areas: (i) modernization of the State, including strengthening of the budgetary process, increasing revenues through customs and tax administration reforms, and measures enhancing the efficiency of the State; (ii) support for efforts to resolve the crisis in the financial sector through the design and implementation of adequate regulatory mechanisms; and (iii) support for the social and environmental sectors in priority areas through operations targeting low-income groups.

**EXCEPTIONS TO BANK  
POLICY:**

The beneficiary organizations are in need of more computer and data base equipment. Given the nature of their work, having access to adequate information and the means to process and analyze it is crucial for the institutional strengthening of these organizations. Accordingly, financing for equipment of this kind is a vital part of the program that will help to achieve the objectives and the benefits. Based on assumptions as to the present capacity and age of the information systems of the participating institutions, financing of up to US\$7 million has been budgeted for the purchase of information systems hardware and software. It is expected that most of this equipment will be purchased towards the end of the disbursement period. A clearer picture of information system requirements will emerge once the preliminary activities preceding the bidding process have been completed, at which time the budget can be adjusted. As it now stands, based on the information available and allowing sufficient leeway to minimize problems associated with installation, the estimated cost of the equipment is put at a maximum of 50% of the IDB financing. The Bank's policy on technical-cooperation funding permits a maximum of 30% of the proceeds of the financing to be used for the purchase of equipment and supplies. Accordingly, a waiver to Bank policy is requested for this operation (paragraph 3.50).

**SPECIAL  
CONTRACTUAL  
CONDITIONS:**

Prior to the first disbursement of the financing, satisfactory evidence must be submitted to the IDB that the following conditions have been met (paragraph 3.38):

- a. A funds transfer agreement must have been signed between the borrower and the executing agency;
- b. Agreements must have been signed between the BCV and at least the following beneficiary agencies: JEF, SBIF, and FOGADE;
- c. A program execution unit within the BCV must have been set up and staffed and a plan must have been submitted for hiring the advisory services considered necessary in providing immediate support to help the execution unit carry out its responsibilities under the program; and
- d. The plan of operations for the first six months of program execution must have been prepared.

**IMPACT ON POVERTY:** Not applicable.

## I. BACKGROUND

### A. Introduction

- 1.1 The purpose of this document is to present a technical-cooperation program that will assist the Venezuelan authorities in strengthening the financial system and the financial market. This chapter describes the general circumstances that have demonstrated the need for this strengthening, as well as the formal process that has given rise to the proposed program. Chapter II summarizes the objectives of the program. Chapter III contains a description of the program components, and presents in more detail the specific weaknesses in the financial system which have been taken into account in designing the program. That chapter also looks at various aspects of the organization and execution of the operation. The benefits and risks of the program and the program evaluation process are discussed in Chapters IV and V, respectively.

### B. Macroeconomic and sectoral framework

- 1.2 A profound banking crisis erupted in Venezuela in early 1994. As a result, the Venezuelan authorities have nationalized, intervened in, and/or closed various financial institutions, which, in size and number, represent a sizable proportion of the country's financial intermediaries. The crisis has not only undermined the entities directly involved, but it has also had a negative impact on various financial groups and the financial system as a whole, with adverse affects at the macroeconomic level. The repercussions of this crisis have been exacerbated by mismanagement, inappropriate financial policies, and a deteriorating macroeconomic situation.
- 1.3 As regards the macroeconomic context, during 1994 both the recession and inflation worsened (the GDP declined 3.3%, while inflation almost doubled) as a result of the financial crisis. The fiscal cost of the crisis amounted to approximately 16% of GDP during the year, as a result of which the fiscal deficit exceeded 15% of GDP, while the money supply grew by approximately 70% and interest rates turned negative in real terms. Inflation rose, surpassing 70%, despite price controls on staples, which have been in effect since July 1994. At the same time, the recession in domestic activity and the exchange controls imposed at mid-year generated a surplus in the current account of the balance of payments equivalent to 6.5% of GDP. As for the capital account, the climate of uncertainty engendered by the banking crisis prompted a significant outflow of resources. By the end of the year, international reserves had dwindled by US\$1,600 million, to a total of US\$8,100 million, or 12 months of imports.
- 1.4 During the first half of the current year, the government initiated a dialogue with workers and employers with a view to establishing a social pact aimed at curbing inflation. In July of this year, the

government proposed an increase in the general sales tax from 12.5% to 15%, the reinstatement of the tax on bank debits, and mechanisms for improving the collection of existing taxes. These measures, coupled with the rise in world oil prices during the first half of 1995, helped to reduce the fiscal deficit to around 7% of GDP, a figure still considered quite high. It should be noted that in the package of measures implemented in July both the nominal exchange rate (Bs170 = US\$1.00 since July 1994) and domestic gasoline prices were left unchanged.

- 1.5 The banking crisis has shown that the Venezuelan financial system has been suffering from serious structural problems, which have been caused by macroeconomic imbalances and shortcomings in bank administration and regulation. The crisis has underscored the unstable nature of the financial system and the extreme weakness of prudential supervision and regulation. In particular, there is an obvious need for more effective supervision of financial intermediaries, the insurance industry, and the financial market, and for strengthening of the institutions responsible for performing these functions (i.e. the Superintendency of Banks and other Financial Institutions (SBIF), the Superintendency of Insurance (SS); and the National Securities Commission (CNV)).
- 1.6 In order to stabilize and strengthen the financial system, a number of institutional changes have recently been introduced. With a view to unifying activities under a single financial authority, Venezuelan officials reorganized the Financial Emergency Board (JEF), granting it authority over the SBIF and the Bank Protection and Deposit Insurance Fund (FOGADE). Under the new system, the Central Bank of Venezuela (BCV) will provide direct technical support to the JEF and serve as the conduit for the multilateral technical assistance the country receives.

C. Technical assistance needs

- 1.7 The joint World Bank/Inter-American Development Bank mission that visited the country in November 1994 discussed with Venezuelan authorities the possibility of using international technical assistance to resolve the crisis affecting the financial system. The need to achieve better coordination and greater coherence in government policies with regard to the financial sector was emphasized and the establishment of a technical working group was recommended.
- 1.8 In March of the current year, following the restructuring of the JEF, officials from the JEF and the BCV held joint meetings with the International Monetary Fund (IMF), the IDB, and the World Bank and agreed on a framework in which the provision of assistance could be coordinated. At the request of the Venezuelan authorities, it was agreed that the Bank's technical-cooperation support would come as part of a joint effort, which would be

coordinated by the International Monetary Fund and would also include the World Bank.

- 1.9 In a letter dated April 7, 1995, submitted through the Central Office of Coordination and Planning, the Government of Venezuela formally asked the IDB to include the technical-cooperation program described in this document in its lending program for the country.

D. The Bank's strategy

- 1.10 The proposed operation is in line with the Bank's strategy for the country. That strategy focuses on three main areas: (i) modernization of the State, including strengthening of the budgetary process, increasing revenues through support for customs and tax administration, and measures aimed at enhancing the efficiency of the State apparatus; (ii) support for efforts to resolve the crisis in the financial sector through the design and implementation of adequate regulatory mechanisms; and (iii) support for the social and environment sectors in priority areas through operations targeting low-income groups.

E. The Bank's experience in the sector

- 1.11 The Bank had prior experience in the sector through its participation in a Financial Adjustment Program (595/OC-VE), that brought out the weaknesses in the system of prudential supervision and regulation and the need to strengthen it. The project completion report (PCR) on that operation and an independent performance review report (PRR) prepared by the Office of Evaluation (OEV), arrived at the same conclusion. In particular, with regard to the issues involved in this technical-cooperation program, these reports highlighted the importance of establishing a modern legislative framework that promotes competition; a supervisory and regulatory framework that ensures that the system functions properly; and flexible, clear-cut, and transparent mechanisms that facilitates the rehabilitation or liquidation of troubled financial institutions. As will be described below in greater detail, the technical-cooperation program proposed here is specifically oriented toward addressing the issues raised in the aforementioned reports. Under this program, the assistance provided will take the form of technical support rather than the explicit conditionality of a program of sector reform.
- 1.12 A technical-cooperation program to receive funding in the form of a loan from the World Bank had been planned in conjunction with the Financial Adjustment Program mentioned in the preceding paragraph. It was felt that the program should include a technical-cooperation component for institutional strengthening, particularly for the SBIF. The technical-cooperation program in question never got off the ground since legislative authorization for borrowing did not receive final approval.

## II. OBJECTIVES

- 2.1 This operation is aimed at stabilizing and strengthening the financial system, basically through technical assistance for the restructuring of the institutions responsible for regulating financial activities, insuring deposits, and maintaining the stability of the system. Specifically, the operation will seek to improve the performance of the institutions responsible for financial oversight in the areas of financial intermediation, insurance, and the financial market. Accordingly, the following Venezuelan financial institutions will participate in the program: (i) JEF, (ii) BCV, (iii) SBIF, (iv) FOGADE, (v) SS, and (vi) CNV.

## III. DESCRIPTION

### A. Activities

- 3.1 The technical-cooperation program is structured so as to assist the Venezuelan authorities in their efforts to address two key issues relating to the situation of the financial system. The first is the stability of the system and the need to take a series of actions in the short term. The second issue concerns the general health of regulatory institutions and the need to strengthen them in the medium term.
- 3.2 In order to address these issues, the program will include activities in the following areas:
- a. Activities to be carried out immediately
    - (i) Functioning of the JEF support group;
    - (ii) Supervisory and regulatory framework in the short term;
    - (iii) Attention to troubled institutions and other activities.
  - b. Institutional strengthening activities
    - (i) Strengthening of financial supervision and regulation (SBIF);
    - (ii) Strengthening of FOGADE;
    - (iii) Strengthening of the Superintendency of Insurance;
    - (iv) Strengthening of the National Securities Commission.
  - c. Support for coordination activities
- 3.3 Because part of the assistance to be provided will consist of assessments and the formulation of recommendations, and given that the cooperation will be implemented jointly by the Venezuelan

authorities and three multilateral organizations (IMF, World Bank, and IDB), the program must be designed to allow flexibility in regard to the specific tasks to be carried out under the program, the timetable of activities, and the administration of the budget. In view of the foregoing, the following program components have been identified.

1. Activities to be carried out immediately

- 3.4 The Financial Emergency Board, with the assistance of a technical support group consisting in part of officials from the Central Bank of Venezuela, is responsible for adopting measures to address the current banking crisis. Therefore, the efforts of the technical-cooperation program to support the process of stabilizing the system in the short term will be carried out in close coordination with the JEF, the BCV, the SBIF, and FOGADE. To assist with these efforts, the IMF has had a resident advisor in Caracas since mid-August, who serves as general advisor to the JEF. Working directly with the Venezuelan authorities, he coordinates the efforts of the IMF, World Bank, and IDB in the technical aspects of this program component.

a. Functioning of the JEF support group

- 3.5 With respect to the technical-cooperation program, the general advisor will support the JEF in defining the objectives for the support group and will advise on the preparation and implementation of a plan of action to address the current banking crisis. That plan will distinguish clearly between activities aimed at resolving existing problems in the short term and activities to implement a medium- and long-term program. As part of this operation, contracts may be awarded for specific advisory services to complement these efforts.

b. Short-term supervisory and regulatory framework

- 3.6 The activities carried out in the short term will focus on providing assistance in connection with critical aspects of bank supervision. Hence, advisory support will be provided for a preliminary reorganization of the SBIF in anticipation of a more extensive restructuring at a later date. In this regard, support will be given to initiate activities by a special SBIF supervisory team, which will undoubtedly play an important role in the process of medium-term reform of the SBIF. Advisory services will assist the SBIF in developing basic procedures for consolidated supervision of financial groups. The SBIF will also receive assistance in drawing up procedures for analysis of the results of the inspections, with a view to evaluating the financial condition, net worth, and foreign operations of private financial groups that continue to operate in Venezuela.

c. Attention to troubled financial institutions and other activities

- 3.7 A significant number of banks have now been taken over by the government. In order to furnish short-term support for the work of FOGADE in connection with these institutions, the consultants will help to formulate a policy and a timetable for restructuring and/or privatizing financial groups taken over by the government that are still open. Advisory services will also be provided for liquidation, sale, and/or administration of FOGADE's assets. As part of the coordinated effort with the three multilateral institutions, the Venezuelan authorities will be assisted by the World Bank in immediate action to deal with FOGADE. As well, the Venezuelan authorities expect to be assisted by officials from the Resolution Trust Company (RTC) of the United States in disposing of FOGADE assets. Moreover, as part of the technical-cooperation component, other activities will include assistance for the JEF in drafting a policy for the banking sector in an attempt to design the most appropriate structure in the medium term. In addition, consultants will be hired to prepare a uniform chart of accounts for the financial sector compatible with the functions and procedures of the SBIF. A diagnostic study will be performed on a supervisory framework for the insurance industry, ultimately intended to help with the restructuring of the SS. The SBIF will be assisted with the evaluation of the present debtor information system (SICRI) and the establishment and administration of a risk-management center.

2. Institutional strengthening activities

a. Strengthening of financial supervision and regulation

- 3.8 The financial crisis has underscored the SBIF's limited capacity to supervise the banking system and to enforce banking regulations. Given the SBIF's current operational condition and the state of its human and information technology resources, it is unlikely that the institution would be able to adequately fulfill its responsibilities even in normal periods. It is therefore imperative to undertake a profound reform of the SBIF, starting with a revision of the legal framework and prudential standards, followed by the development of procedures for consolidated inspection and supervision, restructuring of the SBIF, and an upgrading of its information and computer systems. The program will provide resources for advisory services in these four areas and, in the case of the computer system, resources will also be furnished for the acquisition of hardware and software.
- 3.9 The objective of revising the legal standards and regulations will be to develop proposals for modifying the prudential rules for the banking system as a whole, risk-asset assessment, portfolio management, provisioning rules, capital adequacy, related parties, and generally accepted accounting principles (GAAP). Advisory

support will be provided for the development of a proposal for modifying the prudential rules governing the operations of savings and loan institutions.

- 3.10 The second SBIF-related initiative will seek to improve methods of inspection and supervision, to include establishing criteria for preventive supervision, preparing updated manuals on these activities, and developing procedures for more effective enforcement of the regulations. SBIF will receive support in designing special mechanisms for monitoring financial institutions and groups, consolidating the loan portfolio risk monitoring system, and administering the centralized risk-management system.
- 3.11 In the light of the assessments and proposals for reform of the regulatory framework and the procedures noted above, and based on an evaluation of the present organizational structure, functions, and staffing of the SBIF, the third initiative proposed has to do with the restructuring of the Superintendency. The activities envisaged include measures to improve the performance of existing personnel, establish new hiring criteria, and design a competitive wage and benefits policy that is commensurate with the responsibilities associated with each position.
- 3.12 In connection with the process of restructuring the SBIF, the operation provides for a fourth initiative aimed at improving the institution's efficiency through the development of a data base system to ensure timely reception and processing of information. In order to carry out this activity, current systems will be assessed and ways of improving the existing technology will be proposed, including measures for linking up with the FOGADE and the BCV data bases. Support will be provided to train SBIF personnel in information management and technology.

b. Strengthening of FOGADE

- 3.13 FOGADE is currently responsible for insuring deposits in the banking system. As a result of the banking crisis, payments to depositors in banks closed or subjected to government intervention have depleted the reserve fund and during the past year the government has had to provide FOGADE with financing equivalent to 15% of GDP in order to enable it to fulfill its obligations. In view of these circumstances, this component of the technical-cooperation program will seek to reassess FOGADE's functions, taking into account the need to protect small depositors while limiting outlays from the national budget during periods of banking crisis. The technical cooperation in this area will also contribute to a medium-term plan for liquidation of assets that FOGADE has received from banks that have been taken over, and help improve the structure of FOGADE and equip the institution with suitable information and computer systems.

- 3.14 In order to achieve these objectives, the program will finance advisory services in the following areas: (i) assessment of FOGADE's functions with regard to the liquidation of assets and the supply of liquidity; (ii) development and support for the implementation of a medium-term plan for the liquidation, sale, and/or administration of assets; (iii) analysis of the Fund's organizational structure in order to identify the necessary improvements in light of the proposed changes in the way FOGADE operates; and (iv) design of a data base system. Finally, the operation provides for financing to improve FOGADE's information technology resources.

c. Strengthening of the Superintendency of Insurance

- 3.15 The importance of the SS cannot be underestimated, given the interrelationship between the various segments of the financial sector. For example, insurance companies in many cases are an integral part of financial groups. This interrelationship, coupled with the lack of a uniform regulatory framework, may create opportunities for "regulatory arbitrage". Hence, the technical-cooperation operation will include activities aimed at developing an appropriate regulatory framework and improving the performance of the SS. In particular, the operation will contribute to: (i) a review of the legal framework and prudential standards governing insurance institutions; (ii) the development of procedures for supervision of the insurance industry; (iii) the organizational and functional restructuring of the SS; and (iv) the development of an information system to ensure that information is received and processed promptly.
- 3.16 In this area, the technical-cooperation program provides for a series of activities to be supported through advisory services. The activities to be undertaken include: (i) an assessment of the pertinent legal provisions and prudential standards with a view to developing proposals for their reform; (ii) an assessment of current supervision and control procedures, and assistance in the development and implementation of a plan for improving them; (iii) a reevaluation of the functions to be carried out by the Superintendency, including an assessment of its human resources in order to propose an appropriate hierarchical and organizational structure and a wage and training policy; and (iv) an evaluation of the present technology used by the SS in order to develop an information management strategy and provide support for the process of obtaining bids and acquiring any needed computer equipment.

d. Strengthening of the National Securities Commission

- 3.17 Securities markets in Venezuela are expected to play an important role in channeling capital flows more efficiently through the use of increasingly sophisticated instruments (stocks, bonds, derivatives, etc.). Future development of the securities markets must be accompanied by substantial improvement in the regulation of

securities activities. Accordingly, the technical-cooperation program will include a component aimed at strengthening the National Securities Commission, the institution responsible for overseeing activities and institutions in the securities markets.

- 3.18 The specific objectives of this component are to help: (i) reform the legal and regulatory framework; (ii) streamline and improve supervision procedures; (iii) restructure the CNV and develop its human resources in order to improve its supervisory capacity; and (iv) develop a data base system that will permit effective supervision of the securities market.
- 3.19 The activities proposed for achieving these objectives are advisory services and the acquisition of computer equipment and software. The first step is expected to be a study of the evolution and current status of the regulatory framework (laws and regulations) governing the securities market, on the basis of which advisory services will be provided to assist with the reform of key aspects of this framework, such as the CNV's administrative procedures and financial controls and its degree of autonomy. In order to improve supervision, current procedures will be evaluated, with particular attention to the improper use of privileged information and the transparency of operations. In regard to the restructuring of the CNV, an assessment will be done to examine the evolution of regulatory procedures and determine the current capacity of the CNV to fulfill its responsibilities. This assessment will provide guidelines for the preparation of a manual describing the various personnel positions within the CNV, including a profile of the necessary professional qualifications and compensation levels. It will also be used in the formulation of a strategy for further development of the securities market. In order to improve the information management infrastructure, an assessment of current systems will be carried out and a strategy for action in this area will be devised. Based on the strategy developed, support will be provided for training CNV personnel and for the process of obtaining bids and acquiring any needed computer equipment and software.

### 3. Support for coordination activities

- 3.20 A significant coordination effort will be required in order to carry out the activities planned under the technical-cooperation program. Hence, a specific component will be included in the operation for the purpose of supporting the JEF and the BCV in executing coordination activities. Support will also be provided for the coordination of efforts between the JEF and the BCV, and multilateral organizations (IMF, World Bank, and IDB), with regard to the technical aspects of the operation. As part of the program, financial consultants will be hired to help monitor adherence to timetables and sequence the activities.

- 3.21 In view of the nature of the operation and the degree of flexibility desired, some technical-cooperation funding has been included in the budget to cover contingencies. These funds will be used to finance unplanned activities that are considered important in order to achieve the program's objectives. Such activities might cover situations not anticipated when the technical-cooperation program was prepared or short-term consultancies to address unforeseen needs.

#### 4. Sequence of activities

- 3.22 Annex I presents a more detailed description of the tentative content of the technical-cooperation program. The activities indicated in that annex under each of the areas will be executed in stages by level of priority and logical sequence. Generally speaking, the activities are expected to occur in the following order:

- a. Activities planned under the heading of activities to be carried out immediately and activities planned in connection with the diagnostic studies in each area of institutional strengthening.
- b. Activities relating to the legal and regulatory framework governing the operations of each of the regulatory institutions and their respective monitoring procedures.
- c. Activities aimed at improving the performance and the personnel of the regulatory institutions.
- d. Other activities, particularly those linked to the provision of computer equipment and the upgrading of information systems and to the completion of human resources training and improved procedures for supervision.

- 3.23 Activities targeting each of the beneficiaries will be carried out independently insofar as is possible, thereby making for a smoother, more flexible operation.

#### B. Organization and execution

##### 1. Borrower and executing agency

- 3.24 The borrower will be the Republic of Venezuela, represented by the Ministry of Finance. The BCV will be the executing agency for the technical-cooperation program. The BCV will execute the activities through the Office of Financial System Reform, which will serve as the program executing unit and will be responsible for all coordination and monitoring activities involving the government agencies that participate in the program.

- 3.25 The beneficiary agencies targeted by the technical-cooperation program will be: (i) JEF, (ii) SBIF, (iii) FOGADE, (iv) SS, and (v) CNV.
- 3.26 The program executing unit will have primary responsibility for supervision and coordination of the activities to be carried out under the program. Given the type of activities involved and the flexible and dynamic nature of the operation, the program executing unit must be adequately staffed. Accordingly, the unit's full-time staff will include at least two (2) professionals specializing in financial affairs and two (2) professionals with experience in administrative and organizational matters. In addition, the unit will be supported by consultants in various fields of expertise.

## 2. Technical aspects of program execution

- 3.27 Given the variety of activities and the high degree of specialization associated with them, in order to support the program executing unit and the beneficiary agencies, the Venezuelan institutions and the three multilateral organizations will work together in implementing the activities. In regard to the participation of these organizations, technical support for the program will be part of a joint effort by the specialized units within the IDB, the World Bank, and the IMF, under the coordination of the Monetary and Exchange Affairs Department.
- 3.28 The operational methods to be used in coordinating the support of the three multilateral organizations will be worked out at regular meetings, which will be held as often as circumstances require, but at least once every six months in order to assess the progress of the program and to set specific targets for future stages. The purpose of these meetings will be to ensure strategic coordination among the three organizations, not to approve specific activities. This consultative mechanism is intended to contribute to expeditious and coordinated execution of the program.
- 3.29 During the first phase of the coordination process, currently under way, decisions are being made as to the consultants needed for the activities to be carried out immediately and assessments concerned with important areas of supervision. Subsequently, specific guidelines for the activities will be formulated at these meetings based on the progress of the program.
- 3.30 The coordinated effort would entail determining which multilateral organization could serve as the executing unit's primary technical counterpart for specific activities under the program. The program executing unit will work directly with the multilateral organization so designated on the technical aspects of the activity. For the purposes of coordination, the organization will keep the IMF apprised of the status of each activity.

- 3.31 The terms of reference for each activity will be formulated by the executing unit and the beneficiaries in consultation with the counterpart multilateral organization. The terms of reference will be submitted to the IDB for review and approval as part of the joint technical assistance effort of the multilateral organizations.
- 3.32 Once an activity has been defined, the respective beneficiary will designate a technical counterpart team, to oversee execution of the consulting services contracts. The team from the respective beneficiary agency will assess and approve, in consultation with the program executing unit and the counterpart multilateral agency, the reports that consultants will be required to submit under the terms of their contracts. In this regard, the program executing unit will rely technically on the JEF support group. The program executing unit will forward copies of the consultants' reports to the IDB.

3. Administrative aspects of program execution

- 3.33 The program executing unit will take responsibility for the administrative duties associated with the loan, including requests for disbursements, coordinating the preparation of supporting documentation and its submission to the IDB. The unit will also develop a methodology for selecting consulting firms, draft a model standard contract, evaluate the credentials of consulting firms, and provide support for the recruitment of consultants - in accordance with IDB guidelines for such activities. The IDB Country Office in Caracas will help the program executing unit to apply these guidelines.
- 3.34 The awarding of contracts for advisory services and the procurement of goods will be the responsibility of the beneficiaries or the executing unit. These activities will be carried out in keeping with the mechanisms established by the IDB and the guidelines to be formulated by the BCV. The beneficiary agencies will make available any office space and other facilities required by the consultants and will also ensure that consultants have the administrative, communications, support, and logistic services they need to effectively carry out the program activities.
- 3.35 The funds disbursed by the IDB to finance the technical-cooperation program will be deposited in a special account with the BCV.
- 3.36 The executing agency will pay the invoices of suppliers of goods and services under the various contracts out of the special account, once the necessary approval has been obtained from the beneficiary and the program executing unit.

#### 4. Disbursements

- 3.37 Funds will be disbursed in accordance with IDB procedures. To facilitate the operation, an advance of up to 10% of the financing, or approximately US\$1,400,000, may be established for this purpose. It is estimated that the financing will be disbursed over a period of 3 years.
- 3.38 Prerequisites for the first disbursement: prior to the first disbursement of the financing, it must be demonstrated, to the satisfaction of the IDB, that:
- a. A funds transfer agreement has been signed between the borrower and the executing agency, whereby the borrower will transfer the proceeds of the loan to the BCV and the BCV will comply fully with the terms of the technical-cooperation agreement between the borrower and the IDB;
  - b. Agreements have been signed between the BCV and at least the following beneficiary agencies: JEF, SBIF, and FOGADE, specifying the operational mechanisms for carrying out the respective activities;
  - c. An executing unit has been set up within the BCV, with a staff of at least two (2) professionals specializing in financial affairs and two (2) professionals with experience in administrative and organizational matters, who will discharge their duties on a full-time basis and that a plan for hiring those consultants considered necessary in the short-term to assist the executing unit in performing its duties under the program;
  - d. The plan of operations has been prepared for the first six months of program, including details of the activities to be carried out and the specific objectives and goals of these activities, budgets, and terms of reference for the activities to be executed on a priority basis.

#### 5. Consultant-staffing and equipment acquisition

- 3.39 The procedures for hiring consultants (including outlays for fees, per diems, and/or travel) and procuring equipment will conform to IDB standards. Procurement will be by international competitive bidding when the estimated value of the goods and services is equal to or greater than the equivalent of US\$350,000. This floor is justified since foreign bidders generally show interest in IDB-financed projects in Venezuela only when contracts are in excess of this amount.
- 3.40 Before a consultant is hired for any component of the program, the executing agency, through the program executing unit, will submit to the IDB for its nonobjection the terms of reference for the

proposed consultancy, an estimate of the costs, and the corresponding work schedule. The program executing unit will be required to show that it has taken due account of any recommendations made by the counterpart multilateral organization (see paragraph 3.30) regarding the formulation of the terms of reference.

C. Supervision

- 3.41 The technical-cooperation program will be executed on the basis of 6-month and 12-month operating plans, which will be formulated by the executing agency through the program executing unit in accordance with the conditions agreed on with the IDB for the program. The operating plans will contain information on: (i) the activities proposed for the period in order to fulfill the program objectives, (ii) the planned sequence of activities, (iii) investments and expenses for equipment and consulting services, and (iv) specific objectives and goals of the activities. The plans will be presented and reviewed jointly by the three multilateral organizations (see paragraph 3.28). These organizations will work together, exchanging comments on the plans with the executing unit.
- 3.42 An initial operating plan will be developed for the first six months of the program. Two subsequent operating plans will cover 12-month periods. Each plan will include an evaluation of activities completed during the period ended and the operating plan for the following period. A mid-term evaluation of the program will be performed, approximately 18 months into the program, before the activities proposed in the second operating plan are concluded. Adjustments may be made by mutual agreement to expedite program execution if this is found to be necessary. A final evaluation (see Chapter V) will be done upon completion of the technical-cooperation component when the third plan of operations has been carried out (approximately three years into the program).
- 3.43 Broadly speaking, the initial operating plan will cover activities to be carried out immediately in connection with the JEF, SBIF, and FOGADE, and diagnostic studies in areas of institutional strengthening for SS and CNV (stage a. in the sequence of activities described in paragraph 3.22). The second operating plan will cover mainly those activities concerned with the legal and regulatory framework, supervision procedures, and improvements in operations and the calibre of staff at each of the supervisory institutions (SBIF, FOGADE, SS, and CNV) (stages b. and c. in the sequence). The final operating plan will cover all other activities, but particularly those having to do with improvements in supervision procedures, personnel, and equipment (stage d. in the sequence).
- 3.44 The specific goals and objectives of the activities in the technical-cooperation component will be defined and adjusted as the

operation proceeds. The major objectives and goals of the activities described in Annex I are as follows:

1. Initial operating plan

- a. Establish a preliminary restructuring of the SBIF, identifying the most important areas of supervision, preliminary changes in the organizational structure, and staff reorganization.
- b. Establish new basic SBIF procedures for inspections and analysis of data from inspections.
- c. Set out recommendations on policy and schedules for the restructuring and/or privatization of financial groups taken over by the government but left open.
- d. Prepare a plan for liquidation, sale, and/or administration of assets held by FOGADE.
- e. Prepare a proposal for the SBIF on a new uniform chart of accounts for the financial sector.

2. Second operating plan (objectives and goals to be reviewed and redefined upon completion of the first operating plan)

- a. Prepare proposals for each supervisory institution (SBIF, FOGADE, SS, and CNV) on amendments to the legal and regulatory framework.
- b. Prepare proposals for each supervisory agency on amendments to the supervision procedures.
- c. Prepare a staff evaluation plan for each supervisory institution.
- d. Identify needs in terms of improvements and staff training for each supervisory agency.

3. Final operating plan (objectives and goals to be reviewed and redefined upon completion of the second operating plan)

- a. Prepare proposals for each supervisory agency on new manuals procedures.
- b. Identify staff training and improvement programs.
- c. Identify for each supervisory agency needs in terms of information system improvements.
- d. Prepare recommendations and make resources available for procurement of information systems equipment.

- 3.45 The appropriate units within the Bank at headquarters and the Country Office in Venezuela will have basic responsibility for supervising the program.

D. Total cost and financing

- 3.46 The total cost of the proposed program is estimated at US\$20 million. The IDB share of the financing, amounting to approximately US\$14 million, will be funded from the ordinary capital resources on a reimbursable basis. It is expected that the operation will be executed over a period of 30 months and that the disbursements will be made within a period of 3 years.
- 3.47 The funds for the technical-cooperation program will be available once the Board of Directors of the Bank has approved the operation and the standards and requirements established by the Bank for loans of this type have been met. Certain prepaid expenses may also be recognized in order to finance activities that require priority attention. These activities will be carried out in accordance with IDB procedures.
- 3.48 As noted earlier, a series of actions that need to be done immediately have been identified. Funding available under a previous technical assistance services program approved by the IDB will be used to defray the cost of the consulting services. A sum of approximately US\$600,000 will be drawn on this source. The amount of the IDB financing for this operation will be reduced by the amount of any funding drawn on this source, or resources made available from other sources (i.e. World Bank).
- 3.49 The terms and conditions of the Bank's financing are summarized below:

Repayment period:	20 years
Disbursement period:	3 years
Interest rate:	variable
Inspection and supervision fee:	1%
Credit fee:	0.75%

- 3.50 The cost of the technical-cooperation component is summarized in the following table, with a breakdown by IDB financing and local counterpart funding. Annex II contains a tentative budget with more detailed information. It is important to note that, based on assumptions as to the present capacity and age of the information systems now used by the participating institutions, financing of up to US\$7 million has been earmarked in the budget for the financing of information systems hardware and software. According to the sequence of activities for the operation, it is expected that most of the equipment purchases will be made towards the end of the disbursement period. More specific information on data base systems requirements will not be available until the preliminary activities preceding the bidding process have been completed, at

which time the budget can be adjusted. As it stands, based on the information now available and allowing sufficient leeway to minimize problems associated with installation, the estimated cost of the equipment is put at a maximum of 50% of the IDB financing. The Bank's policy on technical-cooperation funding permits up to a maximum of 30% of the proceeds of the financing to be used for the purchase of equipment and supplies. Accordingly, a waiver to Bank policy is requested for this operation.

**Total cost summary  
(in US\$)**

Area	Cost	IDB financing	Local contribution
1. Activities to be carried out immediately	600,000	600,000	
2. Institutional strengthening activities	15,900,000	10,900,000	5,000,000
a. Strengthening of financial supervision and regulation	5,400,000		
b. Strengthening of FOGADE	4,500,000		
c. Strengthening of the Superintendency of Insurance	3,000,000		
d. Strengthening of the National Securities Commission	3,000,000		
3. Support for coordination activities	2,300,000	1,500,000	800,000
4. Contingencies	1,060,000	860,000	200,000
5. Inspection and supervision	140,000	140,000	
Total	20,000,000	14,000,000	6,000,000

**IV. BENEFITS AND RISKS**

- 4.1 The operation will make it possible, in the short term, to provide advisory services to address the banking crisis and, in the medium term, to provide technical assistance and financing for equipment needed for more effective supervision by institutions responsible for financial oversight, in the areas of financial intermediation, insurance, and securities.
- 4.2 The extent to which the objectives of the program can be achieved will depend largely on the participation and commitment of the counterpart, and on how promptly actions and recommendations are implemented. Inconsistent policies for the financial sector combined with persistent macroeconomic imbalances may hinder the program's success. To minimize the risks associated with these contingencies, national authorities and the multilateral organizations will be encouraged to share and exchange information on an ongoing basis in coordinating the technical assistance.
- 4.3 In order to facilitate execution of the technical assistance, it will be essential to ensure that the activities of the various national entities involved in the program are properly coordinated.

A support group recently formed within the JEF and the powers the JEF has been granted and the role of coordinator assigned to the executing agency (BCV) will help to reduce potential problems with execution.

- 4.4 Given the type of activities involved and the dynamic and flexible nature of the operation, the program executing unit must be adequately staffed with both technical and administrative personnel in order to carry out this program smoothly. Accordingly, one of the technical assistance components will provide support for coordinating the technical-cooperation activities and for strengthening the program executing unit.
- 4.5 Administrative problems and delays in obtaining the necessary legislative approval held up the technical-cooperation component of the financial adjustment program, in which the World Bank and the IDB participated in the early 1990s. Although the present program is not wholly free of the threat of a repetition of the problems that affected the previous program, these risks will be minimized in the present operation. Accordingly, the activities will be carried out immediately. To this end, activities to be accorded priority have been identified and funding is available to carry them out. With respect to the need for legislative approval, the banking crisis and its adverse repercussions has led to a far greater degree of consensus within the country on the need to strengthen the institutions responsible for supervision of the financial sector.
- 4.6 The Venezuelan authorities are making arrangements to ensure that the financing for the operation will receive the necessary authorizations under the 1996 public-sector borrowing requirement (national borrowing requirement - umbrella legislation) so that disbursements may commence early next year (budget act). If the necessary legislative approval is delayed, the success of the operation will be jeopardized. To minimize potential problems with execution, activities to be carried out immediately will be financed with funds from the technical assistance services programs being funded by the IDB and the World Bank. This would allow greater flexibility in future disbursements for the operation.

## V. EVALUATION

- 5.1 Because the activities to be financed under this technical-cooperation program will be executed in collaboration with various regulatory and control agencies, the program will be evaluated for each agency. In other words, separate evaluations will be conducted of the activities involving the JEF, the SBIF, FOGADE, the SS, and the CNV. In performing evaluations, maximum advantage will be taken of the process of review and acceptance of reports on

the advisory services provided in the various areas. Using the comments made by the agencies on the degree to which the advisory services conform to the respective terms of reference, a general assessment of the effectiveness of the advisory services provided to each agency will be prepared. The evaluations will include specific data on the goals achieved under the program affecting each agency directly, such as modifications in the regulatory framework (laws and regulations), changes made in operating procedures, the number of trained professionals, etc.

- 5.2 Evaluation of the impact of the technical-cooperation program in terms of strengthening the financial system will take into account that institutional change is a lengthy and complex process that depends, in large measure, on factors beyond the program's control, such as the macroeconomic environment. Hence, in view of these considerations, the evaluation will include an analysis of the probable effect of the various components of the program with regard to improving the operational framework for the financial sector.

## TECHNICAL-COOPERATION ACTIVITIES

### I. ACTIVITIES REQUIRING IMMEDIATE ACTION

- 1.1 The objective of these activities is to provide technical support for the JEF's efforts to stabilize the banking sector. The following activities are proposed in this area:
  - A. Functioning of the JEF support group
- 1.2 **Tasks - Support Group.** To help define objectives, responsibilities, and tasks of the JEF support group. This will also mean providing guidance for the JEF's work and promoting close coordination between the JEF, the BCV, and SBIF, and FOGADE. The general counsel in the area of banking regulation designated by the International Monetary Fund will be a member of the JEF support group and will coordinate the technical assistance provided by the three multilateral organizations.
- 1.3 **Plan of Action.** To advise the JEF on the development and implementation of a plan of action to address the current banking crisis and strengthen banking regulation. This plan should distinguish clearly between immediate action required to resolve existing problems and activities aimed at implementing a medium- and long-term program.
  - B. Framework for supervision and regulation in the short term
- 1.4 **Amendments to regulatory framework.** To support the JEF in the development and analysis of possible amendments to the legal and regulatory framework for the financial sector.
- 1.5 **Preliminary restructuring of the SBIF.** To provide advisory services in the process of preliminary restructuring of the Superintendency, in anticipation of the definitive restructuring to be undertaken in the medium term under the technical-cooperation program.
- 1.6 **Special supervisory team.** To support, in coordination with the JEF, the efforts of the SBIF special supervisory team.
- 1.7 **Inspection procedures.** To assist the SBIF in the development of basic procedures for consolidated examination of financial groups.
- 1.8 **Inspections analysis.** To assist the SBIF in preparing procedures for analyzing the results of inspections, with a view to assessing

the financial condition, net worth, and foreign operations of private financial groups that continue to operate in Venezuela.

C. Attention to troubled institutions and other activities

- 1.9 **Restructuring and privatization of banks taken over by the government.** To assist the JEF and FOGADE formulating a policy on the restructuring and/or privatization of financial groups taken over by the State, and establishing a timetable for carrying this out. This task will entail: i) assistance in evaluating their financial condition; ii) an assessment of existing plans to privatize these financial institutions; and iii) devising the necessary measures for ensuring the success of these efforts.
- 1.10 **Liquidation of assets held by FOGADE.** To develop and help implement a plan for the liquidation, sale, and/or administration of assets held by FOGADE. To this end, it will first be necessary: i) to appraise the assets in order to compare their value with the amount of the assistance granted; ii) to identify legal impediments to the process of liquidation; and iii) to prepare proposals for surmounting these legal obstacles.
- 1.11 **Bank policy.** To assist the JEF in devising a policy for the Venezuela banking system, with a view to determining the most appropriate structure in the medium run in terms of the number of institutions, branches, and employees. A diagnostic study of the present situation with a focus on efficiency, costs, and productivity would be performed in an initial stage. Accordingly, the SBIF will be called on to provide in advance a minimum amount of additional information on banks still operating.
- 1.12 **Chart of accounts.** To establish a chart of accounts for the financial sector that is compatible with the functions and procedures of the SBIF. The work of sectorization of the economy and, in particular, subsectorization of the public sector will have to be coordinated with the BCV in consultation with the IMF.
- 1.13 **Diagnostic study of supervisory framework for insurance industry.** To conduct a diagnostic study of the functioning of the insurance market and the legal and institutional framework for the industry. This study will serve as a basis for initiating over the medium term the strengthening of the SS described in point II.C. of the present Annex.
- 1.14 **Risk-management center.** To assist the SBIF in evaluating the status of the SICRI and in establishing and administering a risk-management center.

UNITS INVOLVED: JEF, BCV, SBIF, FOGADE, SS

ESTIMATED TIME FRAME: Six months

## II. INSTITUTIONAL STRENGTHENING ACTIVITIES

- A. Strengthening of financial supervision and regulation
  - 1. Legal framework and prudential standards
    - a. Objectives
    - 2.1 To revise the legal framework and prudential standards governing the operations of financial institutions.
    - b. Activities
    - 2.2 **Diagnostic study.** To conduct an assessment of the legal provisions and prudential standards applicable to financial activities and institutions with a view to improving the institutional framework.
    - 2.3 **Strengthening of legal framework.** Based on the assessment conducted, to develop a proposal for improving the legal framework.
    - 2.4 **Strengthening of prudential framework.** Based on the assessment conducted, to develop proposals for modifying the prudential framework, particularly with regard to:
      - a. The banking system overall
      - b. Risk-asset assessment
      - c. Portfolio-risk management (concentration, interest rates, liquidity, exchange exposure, etc.)
      - d. Provisioning rules
      - e. Interest accrual
      - f. Capital adequacy
      - g. Related parties
      - h. Offshore activities
      - i. Consolidation
      - j. Merger and conversion
      - k. Specific aspects of savings and loan institutions
      - l. External audits and internal controls.

- 2.5 **Adapting standards.** To support the SBIF in adapting its standards to generally accepted accounting principles.

ESTIMATED TIME FOR IMPLEMENTATION: One year

UNITS INVOLVED: JEF, SBIF, BCV

2. Examination and supervision procedures

a. Objectives

- 2.6 To improve current examination and supervision methods.
- 2.7 To develop mechanisms for bank analysis prior and subsequent to examinations and establish criteria for preventive supervision.
- 2.8 To prepare updated supervision and examination manuals. To coordinate examination, supervision, and financial analysis activities.
- 2.9 To reassess the approach to external audits.

b. Activities

- 2.10 **Diagnostic study.** To assess current examination and supervision procedures.
- 2.11 **Areas for inspection.** To determine priority areas for examination.
- 2.12 **Inspection methods.** To develop examination methods that will yield timely and accurate assessments of the condition of institutions examined.
- 2.13 **Manuals.** To update examination manuals.
- 2.14 **Procedures.** To improve the procedures for regulatory supervision, including those concerned with:
- a. Risk-asset assessment
  - b. Role of external auditors
  - c. Monitoring of offshore activities
  - d. Monitoring of transactions with related parties.
  - e. Information for the market and publication.
- 2.15 **Risk-management center.** To assist the Superintendency with the administration of a risk-monitoring center.

- 2.16 **Monitoring mechanisms.** To assist the SBIF in devising specific mechanisms (i.e. warning indicators) to permit effective monitoring of financial groups and institutions.
- 2.17 **External audit.** To strengthen the requirements imposed on external auditing firms and to develop a system of penalties in order to encourage more effective reporting to the regulatory entity.
- 2.18 **Internal evaluation procedures.** To develop a system for evaluating the internal bank procedures and management quality.

ESTIMATED TIME FOR IMPLEMENTATION: Two years

UNITS INVOLVED: JEF, SBIF

### 3. Restructuring of the Superintendency of Banks

#### a. Objectives

- 2.19 To conduct an assessment of the organizational and functional structure of the SBIF and propose improvements.
- 2.20 To design a human resources policy based on the assessment conducted and the proposals developed. The policy should take account of the assessment of existing personnel and new staff recruitment criteria and should include a competitive wage and benefits policy commensurate with the responsibilities of the position.

#### b. Activities

- 2.21 **SBIF Functions.** To reassess the functions to be carried out by the SBIF, considering an appropriate legal and regulatory framework, and the need to implement suitable prudential procedures for supervision.
- 2.22 **Human resources.** To conduct an assessment and propose needed improvements of human resources (quantity and quality) and the operational structure of the Superintendency.
- 2.23 **Structure and positions.** To propose an organizational and hierarchical structure for the SBIF and to describe the functions assigned to each position. To establish the minimum qualifications required for each position.
- 2.24 **Training.** To design a personnel training policy, that includes human resources, development and training programs.

- 2.25 **Remuneration policy.** To conduct an assessment and develop a proposal for improving wage and salary policies to ensure that compensation is commensurate with the responsibilities of the position.

ESTIMATED TIMEFRAME: Two years

UNITS INVOLVED: SBIF

4. Information and computer systems

a. Objectives

- 2.26 To develop an information system that will ensure timely reception and processing of information.
- 2.27 To obtain timely and accurate information from financial institutions, avoiding errors and duplication.
- 2.28 To improve the technical infrastructure and have qualified personnel in the area of systems.

b. Activities

- 2.29 **Diagnostic systems.** To assess current information and computer systems, and whether information is consistent with information received by the BCV and FOGADE.
- 2.30 **Upgrading technology.** To conduct an assessment and propose ways of improving existing technology in the SBIF in order to adapt it to the Superintendency's needs.
- 2.31 **Strategy.** To undertake a study with a view to developing an information management strategy.
- 2.32 **Receiving information.** To develop an electronic information system that is compatible with the systems used by commercial banks.
- 2.33 **Training.** To support training for SBIF personnel in information management technology and, if necessary, hire additional personnel.
- 2.34 **Linkage with BCV/FOGADE.** To establish connections with the FOGADE and BCV data bases in order to avoid double reporting of information.
- 2.35 **Information.** To reassess the type of information requested from the institutions.

- 2.36 **Risk-management center.** To develop an information data base for the central bank credit monitoring system.
- 2.37 **Bidding.** To support the Superintendency in carrying out the bidding process for the acquisition of any needed equipment.
- 2.38 **Procurement.** To assist with financing for the purchase of any needed equipment.

IMPLEMENTATION TIME: Two years

UNITS INVOLVED: SBIF, BCV

**B. Strengthening of the Bank Protection and Deposit Insurance Fund**

**1. Functions of FOGADE**

**a. Objectives**

- 2.39 To reassess the functions of FOGADE, taking into account the need to protect small depositors and limit appropriations from the national budget during periods of banking crisis.

**b. Activities**

- 2.40 **Diagnostic study.** To conduct an assessment of the following functions:

a. asset liquidation, and

b. supply of liquidity.

The assessment should focus on: 1/

- (i) The current role played by the various regulatory and supervisory agencies (Central Bank, Superintendency of Banks, FOGADE, Financial Emergency Board, etc.) in supplying liquidity, intervention in financial institutions, and assets liquidation.
- (ii) The legal and regulatory framework for liquidation and financial assistance to the banking system.

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1/ At present, through a short-term consultancy sponsored by the IDB, a series of specific guidelines are being developed with regard to proposals for changes in the legislation and regulations governing FOGADE and its internal structure. Based on the consultants' findings, some of the areas identified here could be modified upon completion of the consultancy.

(iii) FOGADE's functions with respect to the supply of liquidity to the banking system.

- 2.41 **Deposit insurance.** To evaluate FOGADE in its capacity as the administrator of the deposit insurance system.
- 2.42 **Financial condition.** To assess FOGADE's current financial condition and future prospects, including the issues of financial regularization with the BCV and determination of the revenues expected from the liquidation of assets.
- 2.43 **Legislative amendments.** To identify the legal and regulatory modifications necessary in order for FOGADE to better fulfill its functions.

ESTIMATED TIME FOR IMPLEMENTATION: One year

UNITS INVOLVED: JEF, FOGADE

## 2. Plan for the liquidation and sale of assets

### a. Objective

- 2.44 To design a plan for the liquidation of assets owned by FOGADE as a result of its operations, in particular those that come from institutions that have been subjected to intervention by the Fund.

### b. Activities

- 2.45 **Institutions taken over.** To assist in evaluating the management of institutions that have been taken over by the government and closed, including establishing timetables for their final liquidation.
- 2.46 **Legal obstacles.** To assist in the identification of the legal impediments to the process of liquidating financial groups in which FOGADE intervenes and of the assets received by FOGADE in exchange for financial assistance supplied during the banking crisis. Also to assist in the development of proposals for overcoming the legal impediments identified.
- 2.47 **Amendments to the law.** To review the existing legal framework to determine the necessary modifications.
- 2.48 **Liquidation of assets.** To develop and support the implementation of a plan for the liquidation, sale, and/or management of assets.
- 2.49 **Valuation of assets.** To assist in appraising the Fund's assets in order to determine their current value and approximate value upon

receipt for purposes of comparison with the amount of the financial assistance provided.

ESTIMATED TIME FOR IMPLEMENTATION: Four months

UNITS INVOLVED: JEF, FOGADE

### 3. Restructuring of FOGADE

#### a. Objectives

- 2.50 To improve the structure of FOGADE and of its internal procedures, establishing the specific temporary measures to address the special needs the Fund currently faces.
- 2.51 To design an organizational structure and a policy on human resources that includes the evaluation of existing personnel, a priority personnel training program, and a market-based wage and benefits policy.

#### b. Activities

- 2.52 **Diagnostic study.** To assess FOGADE's structure, procedures, and internal operations, and the quantity and quality of the human resources available to discharge its functions.
- 2.53 **Structure and positions.** To identify the changes necessary in order to improve the organizational and personnel structure of FOGADE.

This activity should focus on:

- a. Defining the organizational and hierarchical structure.
- b. Establishing the minimum qualifications for each position.
- c. Evaluating existing wage and compensation policies and making them commensurate with the responsibilities associated with each position.
- d. Designing a staff training policy and programs.

ESTIMATED TIME FOR IMPLEMENTATION: One year

UNITS INVOLVED: JEF, FOGADE

4. Information and computer systems

a. Objectives

- 2.54 To obtain, in the short term, accurate information on FOGADE asset holdings.
- 2.55 To equip FOGADE with the information and computer systems required for its operations.

b. Activities

- 2.56 **Evaluation of equipment.** To assist with the evaluation of FOGADE's current information technology resources and their usefulness for the institution's functions.
- 2.57 **Information system design.** To design an information system suited to FOGADE's new functions.
- 2.58 **Equipment needs.** To identify any computer equipment needs and prepare the technical specifications for their procurement through competitive bidding.
- 2.59 **Procurement.** To assist with financing the purchase of any needed computer equipment.
- 2.60 **Training.** To assist FOGADE with personnel training.
- 2.61 **Integration with BCV and SBIF.** To help integrate the FOGADE system into the SBIF and the BCV computer systems.

ESTIMATED TIME FOR IMPLEMENTATION: Six months

C. Strengthening of the Superintendency of Insurance

1. Legal framework and prudential standards for the insurance industry

a. Objectives

- 2.62 To review the legal framework and prudential standards for insurance companies.

b. Activities

- 2.63 **Diagnostic study.** To assess the legal regulations and prudential standards applicable to the insurance industry with a view to improving the institutional framework (including a greater degree of autonomy for the SS in budgetary management). The assessment

should include an analysis of the insurance sector and its relationship with the financial sector.

2.64 **Strengthening legal framework.** To develop a proposal for improving the legal framework in order to promote a more efficient market.

2.65 **Strengthening standards.** To improve prudential standards. To develop proposals for modifying the prudential framework, particularly with regard to:

a. Consolidation

b. Operating capacity

c. Solvency

d. Investment diversification and valuation

e. External audits and internal control

f. Entry mechanism for new entities

ESTIMATED TIME FOR IMPLEMENTATION: One year

UNITS INVOLVED: JEF, SS, BCV

## 2. Procedures for supervision of the insurance industry

### a. Objectives

2.66 To develop mechanisms for analyzing insurance operations.

2.67 To establish criteria for preventive supervision.

2.68 To review the supervision and inspection methods currently in use and implement the measures necessary to improve them. To prepare updated supervision and inspection manuals.

### b. Activities

2.69 **Diagnostic study.** To conduct an assessment of current prudential procedures for control and supervision.

2.70 **Strengthening procedures.** To improve insurance supervision procedures, particularly with regard to:

a. Monitoring of companies, basically by financial analysis and margins.

- b. Improvement of the audit function and quality control of information received.
  - c. Strengthening of the role of external auditors and actuaries.
  - d. Transparency of the insurance market and availability of information to the public.
- 2.71 **Areas for inspection.** To determine priority areas for examination.
- 2.72 **Inspection methods.** To develop examination methods that will yield accurate and timely results.
- 2.73 **Manuals.** To update examination manuals.
- 2.74 **Financial analysis.** To improve financial analysis of insurance companies.
- 2.75 **Risk assessment.** To help improve the system for risk assessment of insurance company investment portfolios.

ESTIMATED TIME FOR IMPLEMENTATION: Two years

UNITS INVOLVED: JEF, SS

### 3. Restructuring of the Superintendency of Insurance

#### a. Objectives

- 2.76 To redefine the organizational and functional structure of the SS.
- 2.77 To design a human resources policy, to take account of the assessment of existing personnel and new staff recruitment procedures and should include a market-based wage and benefits policy that is commensurate with the responsibilities of the position.

#### b. Activities

- 2.78 **Reassessment of functions.** To reassess the functions to be carried out by the Superintendency, in the light of an appropriate legal and regulatory framework, the need to implement suitable prudential procedures for supervision.
- 2.79 **Diagnostic study of staff.** To assess the human resources (quantity and quality) and operational structure of the Superintendency.
- 2.80 **Staff improvements.** To determine what improvements are required in regard to human resources.

- 2.81 **Structure and positions.** To propose an organizational and hierarchical structure for the Superintendency and describe the functions to be assigned to each position. To establish the minimum qualifications for each position.
- 2.82 **Training.** To design a personnel training policy; plan and carry out staff training programs.
- 2.83 **Remuneration policy.** To assess existing wage and salary policies and help develop proposals for making compensation commensurate with job responsibilities.

ESTIMATED TIMEFRAME: Two years

UNITS INVOLVED: SS

#### 4. Information and computer systems

##### a. Objectives

- 2.84 To develop an information system that will permit timely receiving and processing of information.
- 2.85 To obtain timely and accurate information from insurance companies, avoiding errors and duplication.
- 2.86 To improve the technical infrastructure and have qualified personnel in the area of systems.

##### b. Activities

- 2.87 **Diagnostic study of systems.** To assess current information and computer systems.
- 2.88 **Technology evaluation.** To evaluate the existing technology in the SS in order to adapt it to the Superintendency's needs.
- 2.89 **Strategy.** To conduct a study with a view to establish an information management strategy.
- 2.90 **Training.** To support training for SBIF personnel in information management and technology and hire the necessary personnel.
- 2.91 **Information requested.** To determine what information needs to be requested from the institutions.
- 2.92 **Bidding.** To help the Superintendency with the bidding process for the procurement of equipment.

2.93 **Procurement.** To help finance the procurement of equipment.

IMPLEMENTATION TIME: Two years

UNITS INVOLVED: SS

D. Strengthening of the National Securities Commission

1. Legal framework and regulatory standards for the securities market

a. Objective

2.94 To reform the legal and regulatory framework for the securities market.

b. Activities

2.95 **Diagnostic study.** To study the evolution and current status of the regulatory framework (laws and regulations) governing the securities market, with particular attention to the principal features of the existing legal framework and other relevant laws and standards (e.g., the Commercial Code).

2.96 **Legislative framework.** To provide advisory services for reform of the legal and regulatory framework, with particular attention to:

a. Modification of the CNV's administrative procedures and financial regulations, with a view to giving it autonomy in these areas

b. Regulation of the promotional activities of the CNV in relation to the development of the securities market

c. Establishment of a central securities repository

d. Electronic recording of security ownership

e. Automation of the National Securities Register

f. Automation of monitoring procedures to raise the efficiency of CNV supervision

g. Investment funds

h. Protection of minority shareholders

i. System of penalties

j. Capital requirements for intermediaries

k. Transaction procedures

1. Role of investment advisors

2. Procedures for supervision of the securities market

a. Objective

- 2.97 To streamline and improve regulatory procedures in order to facilitate orderly the development of the securities market and permit early detection of irregularities.

b. Activities

- 2.98 **Diagnostic study.** To evaluate regulatory procedures currently used by the CNV and formulate recommendations for their improving.
- 2.99 **Use of privileged information.** To support the development of a methodology for detecting the improper use of privileged information.
- 2.100 **Sufficiency and transparency of information.** To assess the adequacy and transparency of current information disclosure practices of firms registered with the National Securities Register and recommend any needed improvements.
- 2.101 **Transparency of operations.** To determine the current degree of transparency of operations and propose any needed improvements:
- a. Controls on the routing and frequency of information transmissions to the National Securities Register by registered firms and securities brokers.
- b. Information on over-the-counter transactions, and transmission routing controls.
- 2.102 **Transfer mechanisms.** To assess the reliability of the mechanisms for transfer of securities and liquidation of accounts and propose measures for their improvement.
3. Restructuring of the National Securities Commission
- a. Objectives
- 2.103 To improve the Commission's capacity to monitor the securities market.
- 2.104 To develop the capacity of CNV personnel to carry out their responsibilities.

b. Activities

- 2.105 **Diagnostic study.** To conduct a study of the development of regulatory practices and determine the CNV's current capacity to discharge its duties, taking into account its budget, degree of independence, and the adequacy of its sources of financing, the capacity of its technical personnel, the competitiveness of its salaries, and the independence of its management.
- 2.106 **Structure and positions.** To provide support for the preparation of a manual describing the various personnel positions, including the profile of professional qualifications and compensation levels necessary.
- 2.107 **Staff training plan.** To prepare a personnel training plan, specifying the subjects to be covered and the frequency with which courses will be offered.
- 2.108 **Dissemination of information.** To develop models for the dissemination of relevant information in the market.
- 2.109 **Securities market.** To formulate a strategy for developing the securities market, including the establishment of new product (commodities, futures, derivatives, etc.)

4. Information and computer systems

a. Objectives

- 2.110 To develop an information system that will allow effective regulation of the securities market.
- 2.111 To automate the functions of the National Securities Register and those of the administrative areas of the CNV.
- 2.112 To improve the technical infrastructure and have qualified personnel in the area of systems.

b. Activities

- 2.113 **Diagnostic study of systems.** To assess current information and computer systems and technology.
- 2.114 **Information requested.** To determine what information needs to be requested (through electronic and computerized channels) from the entities under CNV supervision.
- 2.115 **Strategy.** To conduct a study with a view to developing an information management strategy.

- 2.116 **Staff training.** To support training for CNV personnel in information management and technology and hire any needed additional personnel.
- 2.117 **Bidding.** To support the CNV in carrying out the bidding process for the acquisition of any needed equipment.
- 2.118 **Procurement.** To help finance the purchase of necessary equipment.

IMPLEMENTATION TIME: Two years

UNITS INVOLVED: CNV

### III. SUPPORT IN COORDINATING ACTIVITIES

#### a. Objective

- 3.1 To promote better development and implementation of the activities for the technical cooperation program.

#### b. Activities

- 3.2 **Technical and administrative tasks.** To support the JEF and the BCV, as the executing agency for the operation, in overall monitoring of adherence to timetables for both the technical and the administrative activities to be carried out under the program.
- 3.3 **Linkages.** To help coordinate the efforts of the JEF and the BCV, and the multilateral organizations (IMF, World Bank, and IDB) in the technical aspects of the operation.
- 3.4 **Medium-term actions.** To support the JEF and the BCV, as the executing agency for the operation, in sequencing the activities to be undertaken in the medium term in relation to the operations of the SBIF, FOGADE, the SS, and the CNV and in specific monitoring of those activities.

ESTIMATED TIME FOR IMPLEMENTATION: Two years

UNITS INVOLVED: JEF and BCV

**TENTATIVE BUDGET FOR THE PROGRAM 1/  
(in US\$)**

ITEM	COMPONENTS	SUBAREAS	AREAS & LINE ITEMS
I. Activities to be carried out immediately			600,000
1. Planned advisory services	540,000		
2. Contingencies	60,000		
II. Institutional strengthening activities			15,900,000
A. Strengthening of financial supervision and regulation		5,400,000	
1. Legal framework and prudential standards	350,000		
2. Examination and supervision procedures	420,000		
3. Restructuring of the SBIF	400,000		
4. Information and computer systems	3,500,000		
a. Advisory services (US\$500,000)			
b. Equipment (US\$3,000,000)			
5. Contingencies	730,000		
B. Strengthening of FOGADE		4,500,000	
1. FOGADE functions	400,000		
2. Plan for liquidation and sale of assets	800,000		
3. Restructuring of FOGADE	400,000		
4. Information and computer systems	2,000,000		
a. Advisory services (US\$500,000)			
b. Equipment (US\$1,500,000)			
5. Contingencies	900,000		
C. Strengthening of the Superintendency of Insurance (SS)		3,000,000	
1. Legal framework and prudential standards for insurance	300,000		
2. Insurance monitoring procedures	400,000		
3. Restructuring of the SS	500,000		
4. Information and computer systems	1,300,000		
a. Advisory services (US\$300,000)			
b. Equipment (US\$1,000,000)			
5. Contingencies	500,000		
D. Strengthening of the National Securities Commission (CNV)		3,000,000	
1. Legal framework and regulatory standards for the securities market	200,000		
2. Procedures for supervision of the securities market	200,000		
3. Restructuring of the CNV	300,000		
4. Information and computer systems	1,800,000		
a. Advisory services (US\$300,000)			
b. Equipment (US\$1,500,000)			
5. Contingencies	500,000		
III. Support for coordination activities			2,300,000
1. Planned advisory services	1,800,000		
2. Contingencies	500,000		
IV. Contingencies			1,060,000
V. Inspection and supervision			140,000
<b>TOTAL</b>			<b>20,000,000</b>

1/ Except in the case of equipment items, the costs include local advisory services, international advisory services, travel, and per diem allowances.

## APPENDIX I

### PROPOSED RESOLUTION

VENEZUELA. REIMBURSABLE TECHNICAL COOPERATION No. /OC-VE  
STRENGTHENING OF THE FINANCIAL SYSTEM

The Board of Executive Directors

#### RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such agreements as may be necessary and to adopt such other measures as may be pertinent for the execution of the plan of operations referred to in Document AT-\_\_\_\_\_ with respect to a technical cooperation with the Republic of Venezuela for the execution of a program, the purpose of which is the strengthening of the Financial System.

2. That up to the sum of US\$14,000,000 or its equivalent in other currencies, except the currency of Venezuela, is authorized for the purposes of this resolution, chargeable to the Ordinary Capital resources of the Bank.

3. That the above mentioned amount is to be provided on a reimbursable basis, in accordance with the respective conditions which shall be set forth in the agreement to be signed for this operation.