

## STRENGTHENING OF TRANSPARENCY AND FORMALIZATION OF THE FINANCIAL SYSTEM

(TC-02-03-03-3-PR)

### EXECUTIVE SUMMARY

<b>Requestor:</b>	Republic of Paraguay	
<b>Executing agency:</b>	Superintendency of Banks (SB) of the Central Bank of Paraguay (BCP)	
<b>Beneficiaries:</b>	<p>The direct beneficiaries will be government agencies, particularly the BCP and the SB, which will be able to perform their proper functions within an appropriate legal framework and with the wherewithall to supervise the movement of finances in the nation affected by the program, providing the groundwork for transparent growth of the private sector in both production and services.</p> <p>The final beneficiaries of the program will be the entire financial system, its user public, and the country as a whole, insofar as the program will improve the transparency and functioning of the financial system in relation to: (i) combating money laundering; (ii) the supply of financial services to low-income strata of the population, microentrepreneurs, and rural entrepreneurs through properly formalized non-banking financial entities; and (iii) the SB's general oversight capability. The proposed actions are complementary inasmuch as they allow for the aforementioned strengthening of oversight of financial transactions in the country.</p>	
<b>Financing:</b>	Modality	Non-reimbursable
	MIF Facility I:	US\$641,000
	Local counterpart:	<u>US\$319,000</u>
	Total:	US\$960,000
<b>Execution timetable:</b>	Execution period:	36 months
	Disbursement period:	40 months

**Objectives:** The overall objective of the program is to help the financial system operate properly by introducing improvements in its prudential oversight in order to strengthen its legal structure and institutional expression (the SB), in two specific areas and one general area, namely: (i) the transparency and integrity of the system as a whole; (ii) the system of non-banking financial entities; and (iii) the general oversight capability of the SB.

With this overall objective, the program is divided into three subprograms with their corresponding specific objectives: (i) Subprogram A seeks to open the way for effective action against money laundering; (ii) Subprogram B seeks to promote balanced growth of non-banking financial entities, by formalizing them, so as to facilitate the supply of financial services to microentrepreneurs and low-income populations; and (iii) Subprogram C, which is merely instrumental in nature, seeks to provide the necessary support to the SB to improve its connectivity with financial intermediaries, thereby making it possible to achieve the foregoing objectives by upgrading its information technology.

**Description:** **Subprogram A** is subdivided into two components, which have to do, respectively, with the review and updating of the framework of regulation and supervision and the necessary training for the various parties concerned with combating money laundering. The first component distinguishes two activities that will be carried out in coordination with the Organization of American States/Inter-American Drug Abuse Control Commission (OAS/CICAD) and/or the South American Financial Action Task Force (GAFISUD): (i) those having to do with the revision of the current legal framework and the preparation of a harmonious proposal that will assign two clearly differentiated functions to the different administrative units involved, and (ii) those specifically related to the design, regulation, and operating plan of the BCP's Analysis Unit on Prevention of Money or Asset Laundering (UAPLD) to shape it into a modern financial intelligence unit (FIU). The second component distinguishes the training activities of the UAPLD staff from the other government agencies involved and staff of financial institutions, as well as those intended for judges and prosecutors, which due to their special nature, must be differentiated in character.

**Subprogram B** is subdivided into two components having to do, respectively, with adapting the regulatory framework and strengthening the SB's capacity to extend its functions to the non-banking entities that are under it. The first component seeks to provide a regulatory and oversight arrangement that will promote balanced growth of these entities, distinguishing the regulation of: (i) Credit

Unions (CACs), which because of their size and importance must be regulated and supervised by the SB; and (ii) entities that engage in micro-lending. The second component is focused on creating and strengthening the Office of Nonbank Financial Institutions within the SB in order to properly deal with the specific tasks of regulation and oversight of same, assuring its ability to perform effective oversight.

**Subprogram C**, in support of the two previous subprograms, will improve technological and communications capabilities between the SB and participants in the financial sector, differentiating: (i) those having to do with overall interconnection with financial intermediaries, (ii) those having to do specifically with the processes associated with control over money laundering, which include the activities to be performed (and financed) by each of them; and (iii) improvements in the BCP's Risk Center.

**Environmental  
and social  
review:**

The project was reviewed at the 24 May 2002 meeting of the Committee on Environmental and Social Impact (CESI), which had no comments or recommendations on the matter.

**Special  
contractual  
clauses:**

As a condition for disbursement of Subprogram B, the BCP must present proof of: (i) promulgation of the resolution approving regulation of the CACs under Article 3 of the Bank Law, creating the Office of Nonbank Financial Institutions, and bringing the CACs under SB oversight; and (ii) the appointment of the interim Director of that Office.

As a condition for disbursement of the first activity of Subprogram C, the BCP must present proof of promulgation of the resolution establishing, as needed, the material obligations of the financial institutions in terms of the fight against money laundering.

**Exceptions to  
Bank policy:**

None.