

**INSTITUTIONAL STRENGTHENING OF THE SUPERINTENDENCY OF BANKS
AND FINANCIAL ENTITIES FOR THE DEVELOPMENT OF MICROFINANCIAL ENTITIES**

(TC-97-10-37-9)

EXECUTIVE SUMMARY

EXECUTING AGENCY: The Superintendency of Banks and Financial Entities (SBEF)

BENEFICIARY: Republic of Bolivia

FINANCING: Modality: Grant — Window I

Beneficiary:	US\$ 400,000
MIF:	US\$1,200,000
Other donors:	<u>US\$ 300,000</u>
Total:	US\$1,900,000

EXECUTION	Execution period:	24 months
TIMETABLE:	Disbursement period:	30 months

OBJECTIVE: The main objective is to develop and improve the quality of financial services for disadvantaged groups and microenterprise in Bolivia by strengthening the SBEF so as to ensure effective supervision of the increasing intermediation of nonbanking entities, to put proper rules and procedures in place, and to incorporate within the financial system institutions providing credit services for small businesses and microenterprises and home financing for low-income groups.

DESCRIPTION: The program consists of developing and improving the quality of financial services provided by entities channelling resources to low-income groups, small businesses, and microenterprises. These entities include: (i) private financial funds (PFFs), (ii) savings and loan associations; (iii) rediscount entities engaged in microcredit operations, and (iv) financial nongovernmental organizations (NGOs). Three types of technical assistance are included: advisory services, training, and information systems. The specific technical cooperation activities would be to: (i) develop and adapt the legal and regulatory framework established by the Banking and Financial Institutions Act and the Central Bank of Bolivia (BCB) Act; (ii) train SBEF technical staff in appropriate financial technologies and help them assimilate external knowledge and experience;

(iii) improve supervisory mechanisms and evaluation systems that form the framework for microfinance operations; (iv) assign recordkeeping on nonbanking entities to the Central Risk Office; and (v) strengthen the automated information systems for microcredit entities through the development of hardware and software.

**ENVIRONMENTAL AND
SOCIAL REVIEW:**

At the CESI meeting, it was agreed that the social and environmental aspects of the microenterprise activities would be dealt with in the comprehensive support program for small business and microenterprise (BO-0171), currently in preparation.

**POVERTY AND
SOCIAL ASPECTS:**

The project will benefit low-income segments of Bolivian society, and in particular microenterprise, by strengthening the regulation and supervision of entities attending to their financial service needs.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Prior to the first disbursement of resources, the SBEF must complete the following to the Bank's satisfaction: (i) designate a project chief with the authority and time to coordinate the cooperation activities; and (ii) establish the new Office of Nonbanking Entities. The contract will also contain conditions requiring program monitoring and evaluation, the submission of duly audited financial statements, and the use of Bank procedures for the procurement of goods and consulting services.

BENEFITS:

The program will have significant implications for the development of microfinancial entities and home mortgage cooperatives. The formalization of many of these entities and regulation of their activities by authorities established for that purpose will have a positive effect on the level of confidence in and transparency of microcredit operations serving population groups with otherwise limited access to banking services. Improved supervision of those entities will permit the use of national savings to be monitored, particularly in the case of low-income groups. Incorporation of these institutions into the financial system will facilitate management of the country's monetary and credit policies. The market will expand in a more orderly manner and under proper supervision and regulations. Other benefits of the program would be to: (i) promote transparency within the system through better financial integration and reporting; (ii) encourage operating efficiency and competition within the sector; and (iii) improve the risk prevention capacity of the SBEF.

RISKS:

The main risk of the program concerns the lack of continuity of SBEF authorities and officials. On the other hand, since the country's new supervisory system was established, an improvement in the retention of Superintendents has been observed. Another risk relates to the sufficiency and technical qualifications of the counterpart officials. To address this problem, the SBEF has undertaken to assign trained and qualified personnel to participate in the program. In addition, the national government is considering the enactment of new laws that will improve the regulatory framework for the financial system in general. The timely enactment of such legislation will facilitate the implementation and execution of this program.

**EXCEPTIONS TO
BANK POLICY:**

There are no exceptions to Bank policy.

I. COUNTRY ELIGIBILITY

- 1.1 On October 6, 1993, the Donors Committee declared the Republic of Bolivia eligible for all financing modalities of the Multilateral Investment Fund (MIF).

II. BACKGROUND

A. Frame of reference

- 2.1 The Bolivian financial system has evolved considerably since 1985. Deposits increased from US\$60 million in December 1985 to more than US\$3 billion in December 1997. Most of the deposits have been made in banks, although the share of nonbanking entities has risen to 13% of total deposits. The total portfolio increased from US\$856 million in late 1987 to US\$3.416 billion in October 1997, with a delinquency rate of 5.8% and loan loss provisions averaging 35% of the delinquent portfolio. The system encountered and resolved difficulties with a number of banks, and the system's solvency has been significantly improved by the sound handling of the situation by the SBEF and the Central Bank, thus reducing the risk of systemic crisis.
- 2.2 The considerable growth in financial intermediation is the result of successful economic stabilization and effective legal regulations. First, D.S. 21060 of 1985 liberalized financial intermediation activities by: (i) removing restrictions on interest rates and foreign currency transactions; (ii) lowering reserve requirements; and (iii) eliminating State-owned banks. Second, the Banking and Financial Institutions Act of 1993 consolidated the liberalization of the financial system and established a new legal framework. In this context, it is important to develop nonbanking financial entities to cover the financial service needs of microenterprises and communities outside the country's larger cities.

B. Superintendency of Banks and Financial Entities

- 2.3 The Banking Act confers upon the Superintendency of Banks and Financial Entities (SBEF) the responsibility for supervising the activities of all financial entities. The SBEF's bank supervision has been satisfactory, but its capacity for supervising the smaller entities is limited. Moreover, current regulations are significantly biased against microenterprise financing. Accordingly, efforts to strengthen the supervision of nonbanking entities and the enactment of appropriate regulations to cover the activities of such institutions merit support.

- 2.4 In response to this situation, the SBEF established the Intendencia de Entidades no Bancarias [Office of Nonbanking Entities] (IENB) late last year. The IENB is organized within the SBEF structure and has been provided with the staff necessary for its operations.
- 2.5 The SBEF is part of the decentralized public sector and falls under the jurisdiction of the Ministry of Finance. Under the Constitution of Bolivia, its highest authority is appointed by the President of the Republic, selected from a list of three candidates presented by the National Congress.
- 2.6 The relationship between the BCB and the SBEF is defined in Law 1670 of October 1995. The BCB develops monetary, foreign exchange, and financial intermediation policies for application to all entities within the financial intermediation and services system, whose operations are authorized by the SBEF. The supervision and monitoring of compliance with financial system rules and regulations and the formulation thereof are the responsibility of the SBEF, whose budget is autonomous and independent of the BCB.

C. Nonbanking entities

- 2.7 The dynamic growth of the microfinancing sector occurred in the absence of any legal or regulatory framework. Most such entities began their activities informally, without coming under SBEF supervision. Now, however, the rapid growth of deposits in and lending by such entities calls for prompt action to regularize their activities. Microfinancial entities cannot continue to operate as informal intermediaries without affecting the country's financial stability and monetary management.
- 2.8 The nonbanking financial intermediary sector, consisting of microfinancial and home mortgage financing entities, requires formal regulation, and the SBEF will provide the regulatory framework for supervising their operations and promote new supervisory methodologies and the opening of private entities specialized in microenterprise and low-cost housing loans. These entities are: (i) private financial funds (PFFs); (ii) savings and loan associations; (iii) rediscount entities operating in the microcredit sector; and (iv) financial nongovernmental organizations (NGOs).
- 2.9 The PFFs channel resources to small borrowers and microborrowers in urban and rural areas. They operate under the general framework established by the Banking and Financial Institutions Act and other regulatory provisions of the Central Bank and the SBEF. With regard to the PFFs, work has been conducted to prepare: (i) regulations for the establishment and operation of such funds; and (ii) internal procedures to process applications for formal establishment. The corresponding regulations, however, have still not been developed to mobilize NGO formalization and improve their

regulation and supervision. The SBEF is currently evaluating several applications from entities wishing to establish themselves as PFFs. As of March 1998, there were five PFFs in operation and four in the process of establishment.

- 2.10 **Savings and loan cooperatives** have developed independently of the financial system, providing medium- and long-term credit for home purchases. There are currently 13 such cooperatives, four of which maintain acceptable banking administration criteria. The SBEF does not have a regulatory framework for their operations, and several of the institutions have solvency problems.
- 2.11 **Home financing** requires regulation, and the establishment of cooperatives should conform with the current laws in the country, under the same rules and the same kind of supervision. Home mortgage financing requires a more elaborate legal framework and specialized supervision.
- 2.12 The Central Bank of Bolivia issues general regulations on the activities of rediscount operations (second tier), whose sole purpose is the intermediation of funds to private financial entities legally established in the country, while the SBEF supervises and monitors compliance with the rules. There are three rediscount entities, the largest of which is the Nacional Financiera Boliviana (NAFIBO), of which the Andean Development Corporation is a shareholder. Two other rediscount entities operate in the microcredit area: the Asociación de Instituciones Financieras para el Desarrollo Rural [Association of Rural Development Financing Institutions] (FINRURAL) and the Corporación de Instituciones Privadas de Apoyo a la Microempresa [Corporation of Private Microenterprise Service Institutions] (CIPAME).
- 2.13 The Banking and Financial Institutions Act defines NGOs and private social development institutions as nonbanking financial entities for which no regulation currently exists. Accordingly, financial NGOs engaged in microcredit activities do not have an SBEF operating license and are not authorized to receive deposits from the public. They provide their loans using donations or foreign loans.

III. THE PROJECT

A. Frame of reference

- 3.1 The fight against poverty is one of the government's strategic objectives. Accordingly, the government must create a proper regulatory framework under which financial services can be provided, taking into account the growth of sustainable financial entities in response to demand from disadvantaged population

segments. Many Bolivians are left behind because they lack access to formal financial services. Improving the operation and supervision of the financial system will widen that access and help to mobilize resources for productive activities, and in particular for rural and low-income urban microenterprises and small businesses engaged in agricultural and handicraft activities.

- 3.2 The national financial system requires institutions, rules, and regulations that generate confidence and encourage personal and family savings, that make credit and ownership of capital available to more segments of society and home purchases easier to manage, and that transform financial entities into effective microcredit providers. Supervision must maintain a balance between solvency and innovation in order to develop a competitive system open to low-income population groups. ^{1/} A legal framework has to be established for microfinancial entities, including regulations allowing financial NGOs to enter into the formal financial system.
- 3.3 To facilitate international financial cooperation for institutional support loans and portfolio refinancing, it is also important to regulate and supervise the operations of "second tier" banks.

B. Objectives

- 3.4 The main objective is to develop and improve the quality of financial services for disadvantaged groups and microenterprise in Bolivia by strengthening the SBEF so as to ensure effective supervision of the increasing intermediation of nonbanking entities, to put proper rules and procedures in place, and to incorporate sustainable financing entities into the formal financial system.
- 3.5 In particular, efforts will be made to set up a properly supervised financial structure permitting greater possibilities for the growth and development of small business and microenterprise, through access to supplemental financial resources for their expansion. Savers would have access to appropriate entities and mechanisms in which to deposit their financial savings.
- 3.6 The specific technical cooperation objectives would be to: (i) develop and adapt the legal and regulatory framework in accordance with existing legislation; (ii) improve supervision and evaluation systems for microfinance operations; (iii) train SBEF technical staff in appropriate financial technologies and help them assimilate external knowledge and experience; (iv) assign recordkeeping on microfinancial entities to the Central Risk Office; and (v) strengthen the computerized information systems for

^{1/} "Financial Regulation and its Significance for Microfinance in Latin America and the Caribbean". Tor Jannsson and Mark D. Wenner (IADB - SDS/MIC) 1997.

monitoring microcredit entities through the acquisition of hardware and software.

- 3.7 The proposal includes technical assistance in three areas: consultancies, specialized training, and information systems. The purpose of the consultancies is to provide a detailed analysis of the types of entities engaged in microfinancing and promote the development of a regulatory framework, manuals, methodologies, and monitoring and systems evaluation mechanisms for nonbanking entities. The training component will seek to provide better training for staff concerned with the establishment and supervision of nonbanking entities, through internships, courses, seminars, and workshops, both within the institution and through participation by officials in international events on the subject. Lastly, the purchase of equipment to improve the institution's efficiency will be financed out of the components for data processing systems and systems to transfer information to the Central Risk Office.
- 3.8 The United States Agency for International Development (USAID) will contribute US\$300,000 in cooperation funding to the project for the implementation of audit processes for second-tier entities, the evaluation of financial and credit technologies for microcredit entities, and analysis of the proposed regulations. The IDB and USAID will coordinate these technical assistance activities.

C. Cost and financing

- 3.9 The cost, to be financed by the MIF and the local counterpart, would be US\$1.9 million, allocated as follows:

SOURCE OF RESOURCES
(in thousands of US\$)

ITEM	IDB	LOCAL COUNTERPART		TOTAL
		USAID	SBEF	
New regulatory framework	190	110	-	300
Training and development	295	-	120	415
Central Risk Office	110	-	-	110
Computer equipment	220	-	130	350
Systems (software) installation and consultants	275	-	-	275
Desk audit and analysis	-	190	35	225
Coordination and evaluation	40	-	75	115
Contingencies	70	-	40	110
TOTAL	1,200	300	400	1,900

* With the exception of the equipment and software subprograms, the amounts indicated represent consulting costs.

- 3.10 The duration of the project will be approximately two years from signature of the agreement. The SBEF would also contribute by covering the cost of supervisory and support staff as well as providing offices and other facilities for execution of the program.

D. Subprograms

- 3.11 The program includes seven subprograms:

Subprogram I: Development of the legal and regulatory framework (US\$300,000)

- 3.12 The subprogram would finance the establishment of a proper legal and regulatory framework for supervising microfinancial entities.

a. Specific objectives

- 3.13 The specific objectives would be as follows:

- (i) Develop portfolio classification and rating standards consistent with the characteristics of the entities concerned and their areas of activity: consumer loans, loans to small business and microenterprise, and microfinancing for home purchases. The kind of business conducted by microfinancial entities (small amounts, short terms, high interest rates, shorter

repayment periods than those offered by banks) calls for more intensive monitoring and suitable standards for portfolio evaluation and classification depending on the products and financing arrangements offered.

- (ii) Design minimum documentation requirements for micro-credit loan applications in order to correct the lack of reliable information and documentation.
- (iii) Make adjustments in the standards for the external auditor; taking into account the characteristics of the entities, maintaining "generally accepted audit standards" and current legislation and incorporating new requirements.
- (iv) Regulate the minimum capital reserves required (maximum extent of leveraging permitted) and procedures for accounting treatment of subsidies (bilateral agency contributions) and subordinated credits.
- (v) Prepare draft implementing regulations for Article 45 of the Banking and Financial Institutions Act, D.S. 24000 and D.S. 24439 on guarantees and limits for loans secured with personal guarantees or without guarantee.
- (vi) Review and revise the regulations on accounting information and reporting frequency, taking into account the high cost incurred by microfinancial entities in preparing such reports. Draft the corresponding procedures and instruction manuals.
- (vii) Develop the regulatory framework for home mortgage cooperatives: minimum requirements for establishment and operation; mortgage guarantee operations; capital reserve requirements and maximum leveraging permitted; internal and management controls, and compliance with current banking legislation.
- (viii) Review the technical and legal aspects of current regulations and their responsiveness to the special circumstances of microfinance.

b. Activities

- (i) Hire, for one year, an international consultant on the regulation and supervision of financial systems, specialized in microfinancing and regulation and the supervision of "second-tier" entities, to prepare the needed standards referred to in the subparagraphs above. The SBEF will assign officials from the Studies and Standards Office and the Nonbanking Entities

Supervision Office, as counterpart, with authority for introduction of the standards issued.

- (ii) Hire, for three months each, two consultants specialized in supervision and legislation to review the legal and regulatory framework, clarify discrepancies among the various laws and regulations, and propose amendments or new legislation or regulations, in coordination with officials from the Office of Studies and Standards and the Office for Supervision of Nonbanking Entities.
- (iii) Hire, for six months each, two consultants to review and revise the rules for home mortgage savings and loan cooperatives: procedural manuals, internal audits, shareholders, responsibility of directors and managers, auditing, settlement, investments, fixed assets, and information transfer to the Central Risk Office. They will also analyze the financial and asset situation of the cooperatives and quantify the resources necessary to liquidate or merge troubled cooperatives.

Subprogram II: Training and development (US\$415,000)

1. Train supervisors and personnel responsible for the preparation of standards, procedures, and monitoring

- 3.14 The SBEF has 144 employees, 15 of whom are assigned to studies and standards, 21 to supervision of nonbanking entities, 36 to bank supervision, and the rest to line and administrative functions. The SBEF technical staff has received training in bank financial supervision, but requires training in the operations and lending technologies of entities engaged in microcredit and home mortgage loans to low-income groups.
- 3.15 Courses, seminars, and workshops will be held within the institution, and officials will participate in international events to strengthen financial supervision capacity in: (i) financial analysis methodologies; (ii) supervisory methodologies; and (iii) financial technologies appropriate for microfinancial entities.
- 3.16 Internships will also be held in Brazil, Colombia, Chile, Peru, Mexico, Dominican Republic, El Salvador, Spain, and other countries with specialized entities. SBEF unit staff requiring specialized experience and knowledge would participate.
- 3.17 The training program will include the participation of international experts in periodic office and field training seminars and visits to nonbanking entities.

a. Specific objectives

- 3.18 The specific objectives of the subprogram would be to: (i) improve the capacity of SBEF professionals in the performance of their duties with PFFs, savings and loan associations and cooperatives, NGOs, and second-tier institutions; (ii) provide them with the techniques and tools necessary for their work; and (iii) expose them to the experiences and methods of other supervisory agencies.

b. Activities

- 3.19 Training will be provided to SBEF technical staff in the supervision of microfinancing and home mortgage lending over a period of 18 months using the following mechanisms:

- 3.20 Arranging two to four-week internships in different countries with experience in this area.

- 3.21 Attending specialized seminars locally and abroad.

- 3.22 Training SBEF staff on site and in the field in the following areas:

- Lending technologies, critical aspects
- Analysis and evaluation of microfinance
- Supervisory and regulatory techniques for microfinancial entities
- Evaluation and rating of microfinancial risks
- Analysis of financial statements (economic and financial indicators)
- Financial projection methods applicable to microfinancial entities
- Diagnostic of troubled institutions and cost-benefit viability
- Execution and monitoring of supervisory programs for troubled institutions
- Operational audit
- Field supervision and time and task management

2. Development of supervision mechanisms and techniques and evaluation systems for nonbanking entities

a. Specific objectives

- 3.23 The specific purpose of this component is to improve the quality of supervisory mechanisms and techniques, by engaging specialized consulting services for the following activities:

- (i) preparation of proper manuals and procedures for the supervision of microfinancial entities and home mortgage cooperatives (off-site and on-site);

- (ii) determination of the main elements to be covered by the analysis of financial and lending technologies for home financing institutions;
- (iii) evaluation of the establishment permits and operating licenses for microfinancial entities;
- (iv) provision of the necessary tools to the SBEF for monitoring and supervising such entities;
- (v) preparation of a procedures manual for field and office supervision for entities engaged in microfinance and low-cost housing mortgages; and
- (vi) development of a guide for the evaluation of work performed by the external and internal auditors in relation to the emerging requirements for microfinancing operations.

b. Activities

3.24 The services of an international consultant will be hired for six months to prepare and introduce procedural manuals for field and office supervision. The consultant will also develop a model to determine, from a preventive analysis perspective, conditions for the viability of a financing institution engaged in microcredit business, providing the following elements as a minimum: (i) financial projections for modeling and sensitivity analysis of the expected results; (ii) the development of parameters for profitability, solvency, liquidity, and portfolio quality by type of institution and taking into account the types of products concerned; (iii) experiences and uniform criteria for performance conditions acceptable in the Bolivian market; and (iv) case-by-case application of experiences in other countries in respect of the main causes for crises and failures among microfinancial entities.

3.25 An international consultant specialized in financial analysis would be hired for a period of three (3) months to:

- (i) evaluate the results of various consumer credit and production microfinancing technologies;
- (ii) evaluate microfinancial entities in terms of lending technologies, philosophy, procedures, and applied techniques;
- (iii) assess the quality of risk evaluation procedures and management, business and strategic planning, budgeting, etc.;
- (iv) evaluate institutional strengthening plans; and

- (v) develop and evaluate merger projects, with a viability analysis of the resulting institution.

Subprogram III: Central Risk Office (US\$110,000)

- 3.26 The Central Risk Office operates effectively for commercial banks but needs to incorporate the financial information that the microfinancial entities and home mortgage savings and loan cooperatives would be providing. This will broaden the system's database with reliable and timely information for lending and supervision purposes.

a. Specific objectives

- 3.27 The specific objective is to incorporate financial information from microfinancial entities and home mortgage savings and loan cooperatives into the system.

b. Specific actions

- 3.28 Two consultants will be hired for six months each to: (i) design and implement the financial accounting reports needed to input information sent by the entities to the Central Risk Office; (ii) develop a system of penalties and fines; and (iii) train the personnel of new microfinancial entities and cooperatives involved with the Central Risk Office on data transfer methodology.

Subprogram IV: Automated information systems (US\$350,000)

- 3.29 The SBEF needs to expand and improve the capacity of its computer equipment, intermediary network, modems, programs, etc. to permit the exchange of general information with microfinancial entities and cooperatives. This area will involve hardware and software resources as required by the SBEF to contend with the expansion of its activities.

a. Specific objectives

- 3.30 To integrate microfinancial entities and cooperatives into the system of information exchange between financial institutions under SBEF supervision and to optimize the SBEF's internal data processing systems.
- 3.31 To adapt SBEF supervision to the growth and specialized requirements of microfinancial entities in terms of: (i) means and systems for collecting all data required by the SBEF; (ii) means of processing larger volumes of data; (iii) current dissemination methods; (iv) expanded access to information for a greater and more varied number of users; and (v) technical means of reproducing the information.

b. Activities

- 3.32 The funds for this component will be used for the purchase of material to supplement the SBEF's computer equipment. The equipment needed would be as follows: computers, portable computers for the inspectors, printers, magnetic visual media, electronic communications equipment, remote processors, photocopiers, secure magnetic files, and the software needed for the SBEF's new activities.

Subprogram V: Systems installation and consultancy (US\$275,000)

- 3.33 Consultants will be hired to facilitate the use of new electronic equipment and to prepare special software for application to the activities resulting from inclusion of the new entities in the system.

a. Specific objectives

- 3.34 To facilitate the use and application of modern computer techniques for the integration of nonbanking entities into the formal system and to develop the specific software necessary to effectively supervise and monitor those entities.

b. Activities

- 3.35 Three consultants specialized in systems engineering would be hired for periods of between eight and 12 months. The work to be performed by these consultants would be as follows: (i) adaptation of the SBEF's installed hardware to connect electronically with a greater number of microfinancial entities and cooperatives and allow for a greater volume of credit risk report consultation; (ii) strengthening of the financial information storage media; (iii) development of specific software for the supervision of nonbanking entities; (iv) adaptation and strengthening of the hardware and software for staff supervising microfinancial entities thereby enabling them to handle larger volumes of data; (v) development of guidelines for systems audits; (vi) installation of hubs, switches, etc. in five cities in order to improve response times; (vii) training for microfinancial entities and cooperatives in the operation of technology used by the SBEF (software and hardware) for database entry and retrieval; (viii) dissemination of the information obtained; (ix) development of systems audit programs; and other outside consulting services to ensure the proper application of hardware purchased with project resources.

Subprogram VI: Desk audit and analysis (US\$225,000)

- 3.36 Prior to incorporation of the microenterprise rediscount institutions into the regulated financial system, the SBEF needs external audits of those institutions, to be performed by independent firms

of recognized competence. To that end, US\$165,000 has been budgeted, to be disbursed from USAID and local counterpart funds (12 months).

- 3.37 Two consultants would also be hired for three months each to perform desk studies, verify proper application of SBEF standards, rules, and practices and observe application of the training provided with project resources by the officials receiving it. The US\$60,000 for this component would be entirely financed with local counterpart resources.

Subprogram VII: Technical coordination and project evaluation (US\$115,000)

- 3.38 The national technical coordinator for the project will be experienced in project administration, the development of activity programs, and the corresponding timetables. He will administer funds according to the conditions established by the Bank and will coordinate his work with COF/CBO; US\$75,000 has been budgeted for this purpose and will come from the local counterpart funds. An additional US\$40,000 from the MIF resources will be used to hire a consultant who will evaluate execution and progress towards program objectives and take note of experiences during the operation.

a. Organization and execution

- 3.39 The SBEF would be responsible for project execution and for providing technical and administrative support to the external consultants to enable them to perform their work properly.
- 3.40 To be declared eligible to receive disbursements, the SBEF will be required to meet the following requisites, beyond the usual conditions established by the Bank: (i) designate a project chief with authority and time to coordinate this operation; and (ii) establish the new organizational structure of the Office of Nonbanking Entities (IENB). The SBEF will provide the physical infrastructure in terms of offices and other facilities for project execution. The expected duration of project execution is two years, with two and a half years for disbursement.

E. Monitoring

- 3.41 The executing agency will present semiannual progress reports for each subprogram, including a summary of the work performed by each consultant. The first progress report will cover the first three months after program startup, and subsequent reports will be submitted on a calendar semiannual basis. The final report will be presented six months after the end of the disbursement period.

F. Benefits and risks

- 3.42 The program will have significant implications for the development of microfinancial entities and home mortgage cooperatives. The formalization of many of these entities and regulation of their activities by authorities established for that purpose will have a positive effect on the level of confidence in and transparency of microcredit operations serving population groups with otherwise limited access to banking services. The market will expand in a more orderly manner and under proper supervision and regulations. Other benefits of the program would be to: (i) promote transparency within the system through better financial integration and reporting; (ii) encourage operating efficiency and competition within the sector; and (iii) improve the risk prevention capacity of the SBEF.
- 3.43 The main risk of the program concerns the lack of continuity of SBEF authorities and officials. On the other hand, since the country's new supervisory system was established, an improvement in the retention of Superintendents has been observed. Another risk relates to the sufficiency and technical qualifications of the counterpart officials. To address this problem, the SBEF has undertaken to assign trained and qualified personnel to participate in the program. In addition, the national government is studying the enactment of new laws that will improve the regulatory framework for the financial system in general. The timely enactment of such legislation will facilitate the implementation and execution of this program.

IV. FULFILLMENT OF THE ELIGIBILITY CRITERIA

- 4.1 Financing for this project to develop the microfinancing sector in Bolivia is consistent with the MIF's general objectives of encouraging government efforts to reduce poverty, especially in rural areas, develop financial services suited to the needs of low-income population groups, promote credit policies that encourage personal and family savings, make credit and ownership of capital available to more segments of society, and adapt financial institutions to serve as effective providers of microcredit. The proposal is also compatible with the MIF's approach to technical cooperation under Article III, section 2 (d) of the Agreement Establishing the MIF, which includes funding for government efforts to improve their countries' financial systems.

V. CONSISTENCY WITH THE BANK'S COUNTRY PROGRAM

- 5.1 One of the Bank's areas of activity in Bolivia is the strengthening and modernization of public sector institutions and the establishment of effective financial and judicial institutions. In addition, the development and improvement of financial services for disadvantage segments of society will help them enter into the formal economy and thus help to reduce poverty. On both counts, this operation is consistent with the objectives of the Eighth Replenishment and the Bank's country program. In addition, it is consistent with the objectives of the program of comprehensive support for small business and microenterprise (BO-0171) and the housing sector reform program (BO-0008), both currently in preparation by the Bank's technical units.

PROPOSED RESOLUTION

BOLIVIA. Institutional Strengthening of the Superintendency of Banks and other Financial Entities for the Development of Microfinancial Entities.

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Republic of Bolivia and to adopt such other measures as may be pertinent for the execution of the plan of operations referred to in Document MIF/AT-_____with respect to a technical cooperation, the purpose of which is to strengthen the Superintendency of Banks and other Financial Entities for the Development of Microfinancial Entities.
2. That up to the amount of US\$1,200,000 is authorized for the purpose of this resolution, chargeable to the Technical Cooperation Facility of the Multilateral Investment Fund.
3. That the above mentioned sum is to be provided on a non-reimbursable basis.