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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

PARAGUAY - SAVINGS AND LOAN PROJECT

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A.I.D.
Reference Center
Room 1656 NS

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

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AID-DLC/P-961

May 21, 1971

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Paraguay - Savings and Loan Project

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$2,100,000 to the Government of Paraguay to be implemented by the Banco Nacional de Ahorro y Prestamos para la Vivienda ("Banco Nacional") to assist in financing the United States dollar and local currency costs of a national savings and loan system.

Please advise us as soon as possible but not later than noon on Friday, May 28, 1971, if you have a basic policy issue arising out of this proposal.

Rachel R. Agee
Secretary
Development Loan Committee

Attachments:
Summary and Recommendations
Project Analysis
ANNEXES I-V

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PARAGUAY

May 21, 1971

SAVINGS AND LOAN SYSTEM

TABLE OF CONTENTS

	PAGE
PART I SUMMARY AND RECOMMENDATIONS	1
PART II DESCRIPTION OF PROJECT	1
A. Background	1
B. The Project	2
C. Banco Nacional de Ahorro y Préstamos	4
D. Savings and Loan Associations	6
E. GOP Support	9
F. Technical Assistance	10
PART III FINANCIAL ANALYSIS	11
A. Terms of the System	11
B. Provision of Mortgage Credit for Middle Income Families	13
PART IV ECONOMIC ANALYSIS	17
A. Population	17
B. Dwellings	17
C. Housing Demand	18
D. Capacity to Repay	20
E. Place of Project in Country Program	22
F. Financial Outlook	23

PART V	PROJECT EXECUTION	<u>PAGE</u>
		27
	A. Implementation Plan	27
	B. Areas of Responsibility	28
	C. Evaluation	29
	1. Criteria for Evaluating Project Goals	29
	a. Establishing an Effective Savings and Loan System	29
	b. Constructing Houses	30
	c. Stimulating the Home Materials and Home Construction Industry	30
	D. Conditions and Covenants	31
	E. Implementation Schedule and Disbursements	33

ANNEXES

ANNEX I Director's Certification and Approval of IRR

- A. USAID's Director's Certification
- B. Approval of IRR

ANNEX II Project Details

- A. Report of Bernardo Benes
- B. Proposed Structure of Banco Nacional de Ahorro y Préstamos para la Vivienda Organization Chart
- C. General Description of Duties of Each Office or Department
- D. Summary of Personnel
- E. Salaries
- F. Operational Costs
- G. Technical Assistance Expenses
- H. Planned Operating Policy of the Banco Nacional
- I. Planned Operating Policy of the S&L Associations
- J. Projected Financial Statements of Banco Nacional and S&L Associations

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ANNEX III Statutory Criteria

ANNEX IV Letter of Commitment

Letter from President of Central Bank
to USAID Director

ANNEX V Loan Authorization (Draft)

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May 21, 1971

SUMMARY AND RECOMMENDATIONS**PART I**

1. Borrower: The Borrower will be the Government of Paraguay which will use the loans to create the Banco Nacional de Ahorro y Préstamos para la Vivienda (hereinafter referred to as Banco Nacional).
2. PROJECT LOANS: The project will be implemented by two loans: (1) not to exceed \$100,000 and (2) \$2,000,000. Both loans will be made with concessional terms: repayment within forty (40) years including a ten (10) year grace period with an interest rate of two (2) per cent annum during the grace period and three (3) per cent per annum thereafter.
3. COSTS OF PROJECT: The Banco Nacional will have available a total of \$2.6 million for the project. This is comprised of \$500,000 contributed by the GOP and \$2.1 million proceeds of these loans. The \$100,000 A.I.D. loan will be used for consultant and other technical services. It is contemplated that three stock-owned S&L associations will be chartered by the Banco Nacional. These associations will have an initial capitalization of \$150,000 each. These funds will be supplemented by savings deposits from the general public.

In summary, the financial structure of the project is the following:

AID	\$2,100,000
GOP	\$ 500,000
Private Sector (capitalization of 3 S&L assoc.)	\$ 450,000
	<hr/>

Total \$3,050,000

4. PURPOSE: At present there is no home financing institution in Paraguay and at the same time there is a large demand for mortgage financing for middle-income homes. A seed capital loan to establish a Savings and Loan system is needed to mobilize savings and to provide

long-term credit to alleviate the housing shortage for middle income families. There are substantial numbers of Paraguayans with income adequate to make payments on low and moderate price family dwellings if long-term mortgage financing were available. Besides providing a home financing system, this project will stimulate the activities of the home materials and construction industries.

These loans and the GOP contribution will enable the Government to establish a nation wide system of private S&L associations. The Banco Nacional will regulate, supervise and extend financial support to S&L associations. The associations will be capitalized with funds from the private sector. The Banco Nacional will make available financial assistance to the S&L associations in order to finance the construction and acquisition of additional homes for middle income families. The associations will also attract the expanding domestic savings that is currently being utilized to finance imports and exports. Banco Nacional will have a savings deposit insurance system. Mortgage insurance will also be a feature of the system.

5. BACKGROUND: USAID with the support of AID/Washington arranged for Dr. Bernardo Benes, a S&L consultant regularly used by AID/Washington, to visit Asuncion. Dr. Benes in his report to AID/W fully supported the establishment of a S&L system in Paraguay and the approval of this loan. Dr. Benes met with the President of the Republic, who expressed particular interest in the idea of having the public and private sectors coordinate efforts in the area of housing, and various financial leaders involved in the private and public sectors. Dr. Eduardo Gomien, a former President of the Chilean Caja Central de Ahorro y Préstamos, assisted the Paraguayans draft the legislation establishing the system. This legislation will be shortly presented to the Paraguayan Congress.
6. PROJECT DESCRIPTION: The Banco Nacional will be created to provide funds for the creation and operation of

a S&L system. It will have powers, functions and purposes similar to those of the United States Federal Home Loan Bank. The \$2.0 million AID loan will be used to extend financial assistance through the Banco Nacional to the individual chartered S&L associations. The Banco Nacional will not engage in direct lending to the public but will operate through either mutual or stock-owned S&L associations. It is contemplated that three associations will be established by mid-1972.

The \$100,000 AID loan will also furnish technical assistance to the Banco Nacional and the S&L associations. The Banco Nacional will furnish financial and technical assistance to the S&L associations, insure private deposits and provide for a secondary mortgage market. The associations will receive deposits from the private sector and loans from the Banco Nacional. The associations will extend home loans up to 25 years at a competitive rate of interest.

Proceeds from the AID loan will be restricted to the financing of homes that have a maximum sales price, including land cost, of \$10,000.

An average loan of \$5,300 financing a home costing \$7,000 is envisioned. The associations will pay 8% on regular deposits and 9% on term deposits. These rates are considered practical and competitive.

7. OTHER INTERNATIONAL LENDING AGENCIES: AID has been informed that other lending agencies have expressed no interest in this project.
8. VIEWS OF COUNTRY TEAM: Mission believes this project is important and supports its approval because (1) it stresses the importance of a vigorous and competitive private sector; (2) possesses sufficient self-help in the mobilization of domestic resources and in the creation and establishment of a permanent home financing institution; and (3) fulfills a present social need by alleviating the housing shortage for middle income

families by means of providing long term mortgage credits which formerly have been unavailable.

9. STATUTORY CRITERIA: All statutory criteria have been met.
10. ISSUES:

a. Counterpart Contribution of Government: The IRR for this loan indicated that the Government of Paraguay would make a \$500,000 loan to the Banco Nacional. At the request of the CAEC the Mission has negotiated this matter with the GOP and the contribution was changed from a loan to a grant. The counterpart contribution of \$500,000 is, therefore, a sizeable increase over that amount in the IRR. The 4 to 1 counterpart ratio is consistent with other concessional loans that AID has made over the years to the GOP. Moreover, this direct contribution of \$500,000 is considered quite significant. It represents, for example, an amount equivalent to the 1970 budget of the Ministry of Industry and Commerce. Additionally, \$450,000 will be mobilized from the private sector in the form of the minimum initial capitalization of \$150,000 from each of the three associations which are likely to be chartered immediately.

b. Technical Assistance: In light of the recommendations of the "Thrift Institutions in Latin America" of the Joint Economic Committee, \$100,000 will be used to provide long-term technical assistance to both the Banco Nacional and the individual associations. A full time consultant will work with both the personnel of the S&L associations and the Banco Nacional. Short-term consultants will also be used; and there will be a program for participant training.

c. Interest Spread: While the effective interest spread of 5% per annum based on the 13% per annum mortgage rate and the 8% paid on savings deposits may seem high, it appears necessary since a new savings and loan system is being established. New S&L associations are known to have high initial operating expenses. This spread should give the associations enough earning capacity so as to pay off start-up expenses and to establish necessary reserves.

11. RECOMMENDATIONS: Authorization of the loans for an amount not to exceed \$2.1 million which is to be repaid at 2% per annum during the grace period of 10 years and at 3% per annum during the remaining 30 years term. Up to \$2.0 million will be used for loans to the S&L associations and up to \$100,000 will be used for technical assistance.

The Mission additionally recommends that:

- (a) Borrower shall covenant to provide the equivalent of \$500,000 in support of this project;
- (b) Prior to the disbursement of any funds other than for technical assistance, the Banco Nacional shall provide AID with:
- (1) evidence that it has hired management with requisite technical skills satisfactory to AID;
 - (2) evidence that it has initiated policies and procedures satisfactory to AID, necessary for the establishment of a national S&L system.
- (c) Borrower shall covenant that the Banco Nacional shall not:
- (1) permit the S&L associations to make loans for any purposes other than home financing;
 - (2) use the proceeds of the loan to finance homes valued at more than the equivalent of \$10,000;
 - (3) permit the S&L associations to distribute profits which exceed a fair return upon invested capital.
- (d) Borrower shall covenant to attempt to develop additional sources of revenue for additional capital for the Banco Nacional within 18 months of the execution of the \$2.0 million seed capital loan.

- (e) Disbursements of the \$2.0 million seed capital loan shall be made parri passu with the Borrower's contribution to the capitalization of the Banco Nacional.
- (f) AID and the Banco Nacional shall hold an annual joint review and evaluation of the project.
- (g) Technical assistance shall be retained for the duration of the Project.
- (h) The loan will be subject to the usual covenants and conditions of AID loans.

12. CAPITAL ASSISTANCE COMMITTEE:

- | | |
|-------------------------------|---|
| Capital Development Officer | - Michael A. Bander
USAID/Paraguay |
| Economic Officer | - Edward T. Costello
USAID/Paraguay |
| Capital Development Assistant | - Julio C. Basualdo
USAID/Paraguay |
| Technical Advisor | - Eduardo Gomien
Former President of
Caja Central of Chile |
| Technical Advisor | - Bernardo Benes
Washington Federal
Savings and Loan
Association |

Drafted by: M. Bander/E. Costello

4/26/71

Approved by: P. Cody

DESCRIPTION OF PROJECT

PART II

A. BACKGROUND

In mid-1970, the Mission arranged for two Paraguayans, one from the public sector (the Central Bank) and the other from the private sector (a private finance company), to attend the Latin American Savings and Loan Institute Seminar in Austin, Texas. The Paraguayan participation in this Seminar gave strong impetus to the development of the Project.

In January of this year the President of the Central Bank requested that the Mission arrange for technical assistance in establishing a Savings and Loan system in Paraguay. The Mission with the support of AID/Washington arranged for Dr. Bernardo Benes of Washington Federal Savings and Loan Association, a consultant regularly used by AID/Washington, to visit Asuncion. Dr. Benes visited Asuncion from March 24 to 26. He discussed the possibilities of establishing a S&L system with various members of the Government of Paraguay, including the President of the Republic, and with private businessmen. See Annex II, Exhibit A. Dr. Benes concluded that a S&L system would be of utmost importance to the development of Paraguay. He based his conclusions on the following facts:

- 1) that there is no mortgage lending for middle income families;
- 2) that there is a large housing deficit;
- 3) that there are a substantial number of builders with necessary personnel to start the construction of houses;
- 4) that there are substantial savings deposits in the local commercial banks which are primarily used to finance imports and exports.

During his visit, Dr. Benes met with the President of the Republic. In an unusually long meeting the President overwhelmingly accepted this idea of establishing a S&L

system. The President was particularly interested in the idea of having the public and private sectors coordinate efforts in the area of housing. He stated to Dr. Benes that housing for the middle class is a priority for his Government. He instructed the President of the Central Bank to draft the necessary legislation so that it could be submitted to Congress.

The Mission, with the support of Dr. Bernardo Benes, arranged for Dr. Eduardo Gomien to provide the necessary technical assistance in drafting the legislation. Dr. Gomien worked closely with the officials of the Central Bank and the Ministry of Finance.

The Mission has been in contact with private groups such as the Association of Contractors, Professional Engineers Association and various other groups of businessmen. The enthusiasm from the private sector has been most encouraging. The Paraguayan private sector is anxious to become involved in this financial system.

B. THE PROJECT

The \$2.0 million loan together with \$500,000 contribution from the GOP will be made available to the Banco Nacional de Ahorro y Préstamos para la Vivienda for re-lending to a nation-wide system of savings and loan associations currently being organized. \$100,000 for the loan will be earmarked for Technical Assistance in the form of a full-time consultant, part-time assistance and participant training both in the United States and in other Latin American countries.

The purpose of the Loan is to provide Technical and Financial Assistance to establish a permanent and viable S&L system which will make available long term mortgage credit to middle income families through the mobilization of domestic savings. The \$2.0 million AID loan will be used to finance homes ranging up to a maximum price of \$10,000. The loan proceeds and the GOP's capitalization of the Banco Nacional together with the assets of the savings and loan associations will put the system on a sound financial footing.

The creation of the S&L system has been approved in principle by the various GOP officials responsible for financial matters. The formation of S&L system has the strong endorsement of the President of Paraguay who has directed his cabinet members to support the idea. Annex II, Exhibit B, contains the proposed organizational outline of the system. The President of the Central Bank in his letter requesting AID's support states that the necessary legislation to establish the Paraguayan savings and loan system will shortly be submitted to Congress. See Annex IV. The draft legislation is currently being circulated among interested Congressional figures.

The draft legislation that was prepared with the assistance of Eduardo Gomien and Bernardo Benes places the Banco Nacional under the auspices of Banco Central del Paraguay. The Banco Nacional will be an autonomous institution, but will be supervised by the Superintendencia de Bancos. The associations will be controlled and supervised by the Banco Nacional.

It is contemplated that the Banco Nacional de Ahorro y Préstamos para la Vivienda will charter three associations by mid-1972. These associations will be located in Asuncion, since the capital city has the greatest housing deficit for middle class families. Eventually, it is contemplated that the Banco Nacional will charter associations in the interior cities of Encarnacion, Concepcion, Pedro Juan Caballero and Villarrica.

The organization of the initial three S&L associations will be accomplished by early 1972, if not sooner. Under the Paraguayan S&L system, both mutual and stock-ownership savings and loan associations will be permitted. The capitalization for each association will be the local equivalent of \$150,000.

The financial structure of the system will be the following:

- 1) Banco Nacional de Ahorro y Préstamos para la Vivienda
\$2,500,000

- a) \$2,000,000 (AID Loan)
 - b) \$ 500,000 (GOP contribution)
- 2) Minimum initial capitalization of three associations (funds to be raised from private sector).... \$ 450,000
- a) \$150,000
 - b) \$150,000
 - c) \$150,000
- 3) Training and Technical Assistance (AID Loan)
\$100,000
- a) full-time Consultant at \$45,000
 - b) part-time assistance at \$15,000
 - c) participant training at \$40,000

C. BANCO NACIONAL DE AHORRO Y PRESTAMOS PARA LA VIVIENDA

The S&L Law will authorize the formation of an autonomous institution to be called the Banco Nacional de Ahorro y Préstamos para la Vivienda. This institution will be empowered to charter mutual and stock-ownership savings and loan associations. The Banco Nacional will control the operations of a national S&L system.

The Banco Nacional will develop all aspects of a savings and loan system. It will, within the framework established by the S&L legislation, establish the rules and regulations under which the associations will operate, provide them with technical assistance, serve as their emergency source of liquidity, provide lending capital to them by purchasing their mortgages and will underwrite deposit and FHA-type mortgage risk insurances. The Banco Nacional will be authorized to borrow domestically, as well as abroad, in order to secure capital for its operation. Its notes, bonds and insurance commitments will be fully guaranteed by the GOP.

The Banco Nacional will be controlled by a Board of Directors which will have five members. The President of the Banco Nacional will be appointed by the President of the Republic. Its Board of Directors will make the policy decisions to guide the system. For at least the first 18

months of operations a full-time consultant to the Banco Nacional will assist the President and Board of Directors to establish operating policies and procedures.

The expenses for the operation of the Banco Nacional will be paid for from the proceeds from investments that it will make in loans to and mortgage purchases from the S&L associations, and from the premiums and fees it will charge for its savings and mortgage risk guarantees.

The Banco Nacional itself will not receive deposits but rather discount the mortgages of the S&L associations. The proceeds of savings deposits will be the exclusive province and primary source of investment capital of the S&L association. The estimated budget for the Banco Nacional's first year of operation will be approximately \$90,000. Operational income should cover increased expenses as the Banco Nacional grows. See Annex II, Exhibit F for breakdown of operating expenses.

Since the Banco Nacional is a non-profit institution, the money it earns will remain reinvested in the S&L system at a compounding rate. Thus, it will be able to make a maximum contribution to the lending capacity of the new S&L association. The development of additional capital for a secondary mortgage market, participation in the AID Housing Investment Guaranty Program, and domestic and foreign borrowing will add to the growth of the entire system. The AID loan, with its 10 year grace period and low rate of interest, will make it possible for the Banco Nacional to become economically independent within a three year period.

The Banco Nacional will employ a small staff. Annex II contains a proposed organizational outline of the Banco Nacional and other materials dealing with its structure, staffing, and estimated costs of operations.

D. THE SAVINGS AND LOAN ASSOCIATIONS

It is anticipated that the Banco Nacional will charter three S&L associations to begin operations by early 1972. The Banco Nacional will be able to charter either stock-owned or mutual associations. It is expected that the first three associations will be stock companies. These associations are presently being organized by responsible Paraguayan businessmen. Each association will have an initial capitalization of \$150,000.

The associations will be able to pay to depositors a rate of interest that is equal to the interest paid by the commercial banks. The present rate of interest on regular savings deposits is now 6% per annum. Time fixed term deposits receive a rate of interest of 8% per annum.

The mortgage loan interest rate will be put at a competitive rate of interest, most likely 12% or 13% per annum. The rate of interest for mortgages will be maintained at a high rate until the S&L associations have achieved a strong portfolio and have generated sufficient assets so that they can use self-generated funds to finance the construction of more homes.

The S&L associations will be prohibited from lending activities for speculative building or for land development. All mortgage loans will be made to home owners-borrowers. Mortgage loans will be made for:

- a) The construction and long-term financing of new houses;
- b) The purchase of a newly built home where the borrower is to be the first occupant; and
- c) The repair or enlargement of an existing home where the construction will add additional living space.

The S&L associations will be authorized to receive loans from the Banco Nacional at favorable rates of interest. It is expected that the savings and loan associations will be able to borrow funds from the Banco Nacional at a rate of

8% per annum. This will make a spread of approximately 5% between funds available from the Banco Nacional and the prevailing mortgage rates. Thus, the advantage S&L associations will obtain from the lending window of the Banco Nacional, and indirectly from the AID loan, will be an increased capacity to satisfy the demand for home financing loans and to attract a large amount of savings. This spread will also help to offset heavy initial operating costs, compensate for the excessive early deposit/loan ratios and ensure adequate reserves in the initial operating period. The total effect of this spread will be to help establish the S&L system and at the same time promote the confidence of the Paraguayan saver in the system.

The need for such a spread is obvious and has been used by AID in nearly all the countries of the continent. See Thrift Institution Development in Latin America, a study of the Joint Economic Committee of the 91st Congress, dated June 4, 1970.

To assure that each S&L association will have a reasonably equal opportunity to use AID funds, no association will be permitted to draw on the Banco Nacional for more than three times as much as it has been able to obtain through savings and capitalization. Thus, the S&L associations will have a strong inducement to seek savings deposits. See Annex II-H.

It will be obligatory for the S&L associations to obtain FHA insurance for their mortgages. The effect of this will be to make each association's portfolio appropriate for sale in a secondary mortgage market operation and will obligate the associations to follow the lending regulations set forth by the Banco Nacional.

The associations will be oriented toward financing the housing needs of middle income families. Since the basic stumbling block toward home construction in Paraguay has been the lack of mortgage money, the S&L system will need to attract savings deposits to compliment the loans from the Banco Nacional. A wide mix of saving incentive

techniques will be required if the S&L system is to make any effect on reducing the current house deficit. The possibility of obtaining home financing will be an important incentive for savings.

In order to assure that the AID loan is used to alleviate the housing deficit for middle income families, the loan agreement will limit the value of the housing units to be financed with loan proceeds at the local equivalent of \$10,000. It is expected that the average loan made by the system will be approximately \$6,300 and that the value of the average house financed by the system will be approximately \$7,000.

The planned operating policy of the S&L associations is outlined in Annex II-I.

E. GOVERNMENT'S SUPPORT

The Mission has had extensive conversations with various involved GOP officials concerning the establishment of a S&L system. The GOP has given this project its overwhelming endorsement. See Annex IV.

The President of the Republic in his conversation with Dr. Benes enthusiastically committed his government to this project. Moreover, the President of the Central Bank in his letter requesting AID support indicated the high priority that has been given to the establishment of a S&L system in Paraguay. See Annex IV, Exhibit A.

The Intensive Review Request submitted by the Mission in February of this year called for the Government of Paraguay to make a \$500,000 loan to the Caja Central, (now the Banco Nacional de Ahorro y Préstamos para la Vivienda). To demonstrate its sincere interest the Government of Paraguay will make a \$500,000 grant instead of loan for the capitalization of the Banco Nacional de Ahorro y Préstamos para la Vivienda. The Government, through the Central Bank, has taken the initiative in this project. The Central Bank is conducting courses for key technicians within the Central Bank in the philosophy and mechanics of a S&L system.

The President of the Republic has indicated, as has the President of the Central Bank, that the enactment of a S&L law is a priority matter for the Paraguayan Congress. The draft legislation has been prepared and will be submitted shortly to the Congress. This legislation has been reviewed by Dr. Eduardo Gomien and has the endorsement of the Executive Power.

F. TECHNICAL ASSISTANCE

Loan financed assistance will be provided to both the Banco Nacional and the S&L associations during the first two years of operation in the form of a full-time advisor (\$45,000), short-term advisors (\$15,000), and participant training (\$40,000). The details of the technical assistance program are outlined in Annex II, Exhibit H. The technical assistance program will have two objectives: (1) to assist the Paraguayans develop the administrative system of the Banco Nacional; and (2) to help improve the legal, administrative and accounting procedures utilized by the S&L associations.

In order to accomplish the above two objectives the full-time advisor will be retained for a two year period. He will work with the Banco Nacional and the S&L associations. Since Paraguay has limited personnel with experience in home financing institutions, this expert will have the major responsibility for the organization of the Paraguayan savings and loan system. He will be instrumental in establishing training programs for the personnel of both the Banco Nacional and the S&L associations. The advisor will also help develop operating policies of the system.

Officials of the Central Bank have already expressed interest in having Dr. Bernardo Benes assist them in arranging for the technical assistance. It is anticipated that the technical assistance contractor will arrange for a qualified Latin American expert to be the full-time advisor. The contractor will also provide for various short-term advisors to work in Asuncion. The arranging of participant training will also be a responsibility of the contractor. It is also anticipated that participants will participate in the Latin American Savings and Loan Institute and the Annual Inter-American Savings and Loan Conferences.

The provision of this technical assistance is in keeping with the experience of the other Latin American countries and is in accord with the recommendation of the Staff of the Joint Economic Committee (See pp 73 of said study).

FINANCIAL ANALYSIS

PART III

A. TERMS OF THE SYSTEM

The following rates are representative of the system and are used for planning purposes. They were based on discussions with officials of the Central Bank.

Interest of AID Loan	2% during ten year grace period - 3% thereafter
Dividends(interest) on Deposits Paid by Assocs.	8% - regular (demand) 9% - term (time)
Interest on Mortgages	13% (competitively determined)
Interest on Banco Nacional's Loans to Associations	8%

The S&L associations will earn a spread of 5% on the funds they borrow from the Banco Nacional and an average spread of 4-1/2% on its regular and term deposits. While this spread may seem high, it is believed necessary to offset heavy initial operating costs, excessive early deposit/loan ratio and to build up adequate reserves. The well established position of the commercial banks, which actively solicit savings accounts and pay an effective rate of interest of 8% per annum, may add to the normal high start-up costs of a S&L system.

During the beginning period the above rates will enable the Banco Nacional in its loans to the S&L associations to maintain a spread of 8% on the AID loan and 8% on the GOP contribution. Thus, on the total \$2.5 million in seed capital funds, the Banco Nacional will average an annual earning capacity of \$200,000. It is believed that this spread will cover the Banco Nacional's administrative expenses and permit it to build up its reserves so it can

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operate on a self-supporting basis. The Banco Nacional will need this earning capacity to cover the high operating costs of administering a mortgage insurance program, deposit insurance program, and possible loan losses.

The proposed rate of 8% on regular savings will be the highest rate now offered in Paraguay for this type of deposit. Commercial banks are permitted to pay 6% for regular savings deposits, but, because of the laxity of the Central Bank, generally the time deposit rate of 8% is paid to regular savings accounts. It is anticipated that the Central Bank will curb this practice.

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B. PROVISION OF MORTGAGE CREDIT FOR MIDDLE INCOME FAMILIES

The S&L system will provide mortgage credit to middle income families at reasonable terms. Although inflation in Paraguay is not a problem, Dr. Gomien has suggested that the savings and loan law include a provision for readjustment of savings or loans. If required by a change in Paraguay's economic situation, the Banco Nacional would then be able to initiate a system of adjustable savings and loan mortgages.

The following charts were prepared for planning purposes by an Ad Hoc committee composed of officials from the Central Bank and the USAID Mission. It appears that the minimum annual family income required to participate in the long-term credit aspects of the S&L system would be \$2,400. A family with this income, for example, could make application, once it had sufficient funds for down payment, for a mortgage loan of \$4,500. Family incomes below \$2,400 would not be eligible to seek credit under this program; however, these home seekers would be able to qualify for assistance from the Instituto Paraguayo de Vivienda y Urbanismo (IPVU).

From discussions with home builders the Ad Hoc Committee determined that the average middle income family would desire a house valued between \$6,000 and \$8,000. Accordingly, after having made a downpayment of \$800 (10% of the value of the house), a prospective home-owner for a home valued at \$8,000 would receive a loan in the amount of \$7,200. If AID funds are used for homes valued at more than \$8,000, home owners will be required to have a larger downpayment: for homes valued between \$8,000 and \$10,000 a downpayment of 15% will be required.

The proceeds from the AID loan will not be used to finance homes with a sales price of more than \$10,000. Although the S&L system will not have a limit on the value of homes that can be financed, all homes selling for more than \$12,000 will be required to have at least a 50 percent downpayment.

The table below sets out estimated income levels needed to service various mortgages.

ESTIMATED REPRESENTATIVE INCOME CAPACITY TO
SERVICE HOUSING LOANS UNDER THE SYSTEM
(in U.S. dollars)

<u>Year</u>	<u>Month</u>	<u>Monthly Installment</u> <u>1/</u>	<u>Loan Amount</u> <u>2/</u>	<u>Down Payment</u>	<u>Cost of House incl. Land</u>
2,400	200	50	4,500	10%	5,000
3,000	250	60	5,400	10%	6,000
3,360	280	70	6,300	10%	7,000
3,960	330	82	7,200	10%	8,000 <u>3/</u>
4,320	360	90	8,100	10%	9,000
4,800	400	100	9,000	10%	10,000

1/ Includes fire and mortgage insurance and taxes. Mortgagee pays closing costs.

2/ Terms: 25 years - Rate: 13% per annum.

3/ Homes valued at more than \$8,000 will be considered only under special circumstances and if an additional down-payment is made.

Below is an estimate of the various income levels of families in the Asuncion area. The chart demonstrates that there are a substantial number of families to qualify financially for mortgage loans.

ESTIMATED INCOME - HEAD OF HOUSEHOLD AND FAMILY
(in U.S. Dollars)

Income Level	Individuals	Head of Household Monthly Average Income	Family Average Monthly Income <u>1/</u>
High	18,747	320	480
Middle High	32,477	240	360
Middle	85,411 <u>2/</u>	180	240
Middle Low	35,491	100	150

1/ Family average monthly income was estimated by taking that number of working individuals in a family which is put at between 1.55 to 3 persons per family. Thus, it was estimated that an average of 2.27 persons are working in the average Paraguayan family. In conclusion, the family average monthly income is estimated to be 50% more than the monthly salary of the Head of Household.

2/ The large number in the middle income level is due to the fact that this figure includes a high percentage of individuals holding more than one job, i.e. part-time work after regular work hours. This is often the case with bank employees, professors, etc., who work as bookkeepers, tutoring, etc. These activities increase their salary to approximately \$160 a month.

ECONOMIC CONSIDERATIONS

PART IV

A. POPULATION

Paraguay is a country roughly the size of California with a 1970 population of about 2.4 million. Current population growth is estimated at 3.2% annually. The average number of persons in a family is estimated at 5.4. About 95% of the population live in the eastern region of Paraguay; about 50% live within 50 miles of Asuncion. The urban-rural composition has remained stable. The opening of new agricultural settlements in the country at a time that job opportunities in Asuncion, the capital, have been limited has discouraged population shifts from country to city. This factor has reduced the pressure on urban housing.

As a result, Asuncion does not have the large urban slums found near most major cities in Latin America. The population of metropolitan Asuncion is the economic and political center of the country and dwelling place for most of Paraguay's middle class. For this reason, most home construction generated by the savings and loan system will be located in the Asuncion area. The next largest city, Encarnacion, has only about 40,000 inhabitants.

B. DWELLINGS

Reliable statistics on housing and income are scarce. However, all available information confirms the fact that there is considerable shortage of adequate housing in Paraguay and there is considerable effective demand for middle income housing. Best estimates place the total number of dwellings at 508,000 in 1970: of this total 76,500, or 15%, are located in Asuncion proper. The same area has 18% of the country's population. This figure was determined by the Malaria Eradication Agency who took a housing inventory for spraying purposes. A 1962 census showed that over half of the houses in the capital had only one room per dwelling but still indicate the inadequacy of present housing, especially in view of the fact that the average family in 1970 contained 5.4 persons.

There are other indications of inadequate housing. Only an estimated 40% of dwellings in Asuncion have running water, while 70% have electricity. In both of these areas expansion is in progress. Increasing the number of owner-occupied new homes and the rehabilitation of older homes should increase the utilization of these services.

Because of the lack of mortgage money, many middle class families are forced to rent rather than buy. They usually wait till they get enough money together to buy a lot and some building materials and then start construction. When the first room is completed, they move into the house and apply the money they had paid for rent to finishing the house. This can be, and typically is, a long process. While they wait to complete the house, the occupants live in crowded and often sub-standard conditions. A mortgage market would be ideally suited to the needs of this type of person.

C. HOUSING DEMAND

Precise data does not new exist on the effective demand for long-term housing loans. All indications, however, are that the proposed S&L associations will have plenty of customers.

In the 1969 Social Progress Trust Fund Report the IDB notes that "Government estimates put the 1969 housing deficit in Paraguay at 160,000 units, of which 21,000 correspond to Asuncion, 19,000 to other cities in the interior, and 120,000 to rural areas. Roughly 60 percent of rural dwellings classified as inadequate need enlargement and improvement, and the remainder needed replacement. The number of dwellings built in the past few years has met only half the demand arising from the population increase. On the basis of the current shortage and anticipated excess demand over the next ten years, a total deficit of about 261,000 units must be met by 1980, at an investment of US\$342.5 million. Paraguayan authorities propose to meet 30 percent of investment needs in the housing sector, which is likely to involve an annual capital outlay of US\$10.2 million."

A different approach was taken by the GOP planning agency. The agency first estimated the annual number of dwellings necessary both to house population increases and cover replacement housing. These calculations were based on the rate of population increase in the intercensal period (1950-1962), average family size, and the probable life of the house. On this basis it was found that in Asuncion 7.14 new houses were needed annually for every 1,000 of population. For the rest of the country the ratio was 9.38 houses (i.e. for example, an interior town of 1,000 would need 9.38 houses annually).

From available sources the planning agency estimated that in 1964 some 1,300 dwellings were built in Asuncion and 4,440 were constructed in the rest of the country. The percentage of total need (as determined above) which these houses filled was respectively 53.19%. If one assumes 1964 was a typical year, then the number of houses constructed per 1,000 of population was 3.80 and 2.73 for the rest of the country. Concentrating on Asuncion, this means that the housing deficit per 1,000 population is 3.34 houses. On the basis of the 1970 population the housing deficit in the Asuncion metropolitan area would have been 1,460 houses in 1970. This figure would grow as population increases. Although some of these homes would not be financed by the S&L system since they would be priced below and above the limits of the system, the proposed S&L system will fill a sizeable demand.

Because reliable income figures from which to compute effective demand are unavailable, this figure has been estimated in the following manner. About one third of the population is in the labor force. Applying this to Asuncion's population produces a 1970 labor force of about 145,000. A study done by the Instituto Paraguayo de Vivienda y Urbanismo indicates that about 17% of the population is in the low class, 73% in the middle class and 10% in the high class. Although the income figures that are presented are suspect (high class family income of \$5,200 per year) since the sample was limited, the percentage breakdown appears acceptable. The assumption that the upper third of the middle class are potential borrowers, gives a figure of 34,800 persons. If 10% of

these are interested in the S&L system, there would be 3,480 customers; if half of these want to finance homes, the demand would be 1,740 borrowers.

A further indication of potential demand is the growth of bank savings. They have almost doubled from \$26.7 million at the end of 1967 to \$45.7 million at the end of 1970. Bank savings currently represent an amount equal to 73% of the money supply.

It has been the experience in the hemisphere that the minimum income for potential borrowers is \$2,400 equivalent. In Paraguay a laborer earning the minimum wage for 200 days per year would earn \$371 per year; since other members of his family would also work, this figure could reach \$500. A beginning clerical worker would earn about \$1,500 per year with a top of \$2,200-\$2,400. The earnings of Government employees vary considerably with department heads earning as much as \$8,000 annually. Private sector salaries also vary, with bank salaries the highest.

The \$2,400 figure gives a cut-off point that includes top level clerical employees and above as participants in the S&L system. About 35,000 people are estimated to fall into this group. In summary, although data on income and housing demand is scarce, there is strong reason to believe that there is sufficient effective demand to make the system viable.

D. CAPACITY TO REPAY

As discussed more fully in TOAID A-94 of April 19, 1971, Paraguay's authorized external debt stood at \$225 million at the end of 1970. After deducting for amortization payments and unutilized portions, the "amount payable" was \$140 million. This amount represents about one quarter of one year's GNP and does not appear excessive.

Debt repayments in hard currency are estimated at \$17.4 million currently; they rise to \$18.7 million by 1974 (see

appendix B of the FY 1972 CFS). With 1970 exports at \$64 million, this produced a hard currency debt service ratio of 27%. Although this appears high, there are several factors which reduce the burden. These include an active curb market which financed imports, underestimated exports, and a high priority given to making debt payments by the GOP. To date Paraguay has not experienced undue difficulty in meeting her debt obligations. Over the foreseeable future these conditions are not anticipated to change, and if current GOP efforts to increase exports continue, the debt service ratio could even decline. The growth of debt service payments beyond 1975 is difficult to project, but given Paraguay's traditional slowness in absorbing capital, it is not anticipated that debt service payments will become onerous.

On balance, the loan committee feels that the loans can be repaid without difficulty.

E. PLACE OF PROJECT IN COUNTRY PROGRAM

As set forth in the approved FY 1972 Country Analysis and Strategy Paper (CASP), a primary U.S. objective includes the broader participation of Paraguayans in the political and economic life of the country. As presently envisioned, the S&L system, by providing an opportunity for home ownership, will give many Paraguayans a stake in their country's future. By stimulating the construction industry, the S&L system will also have a favorable impact on the economy, directly in terms of jobs and materials, and indirectly in terms of developing entrepreneurial activity. This increased employment and resource utilization is also a CASP objective.

Another important aspect of the S&L system is that it will provide an alternative to bank savings. One reason for Paraguay's high level of bank savings is the lack of reasonably secure productive investment alternatives. There is no stock or bond market in Paraguay, and the protection given to industrial ventures is limited. Consequently, savings take the form of savings and fixed time deposits which are used by the banks mostly for import and short term commercial purposes. The commercial banks in Asuncion are presently experiencing excess liquidity due to the rapid growth of savings over the past several years. One top banker commented that if a qualified borrower appeared he could place the guarani equivalent of \$8 million in loans. Hence, the S&L system, while not endangering the functioning of the banking system, will provide a greater stimulus to economic and social development.

The S&L system, therefore, will be one more unit in the financial system that AID is helping Paraguay to create. The AID loan to the Banco de Fomento helps the agriculture sector of the economy. COMDESA, partially financed by an AID loan, is concerned with business development. The most recent AID loan to Paraguay will create the Municipal Development Institute to help the development of the interior cities. The S&L system will help both the middle class home owner and the construction industry. Taken in tandem, then, these four organizations functioning simultaneously present a diversified financial system of intermediate credit institutions. These will aid the development of Paraguay through the participation of permanent Paraguayan institutions. This outcome is consistent with U.S. objectives in Paraguay.

F. FINANCIAL OUTLOOK

Projected cash flow, income statements and balance sheets (Annex II) were prepared on the basis of the estimated annual budget of the Banco Nacional and assumptions concerning lending activity. Results show that in order to maintain the momentum of construction financed by the S&L's once the AID loan is disbursed, the Banco Nacional will need to receive additional financing after its fourth year of operation. For this reason the loan agreement will contain a covenant requiring the Banco Nacional and the GOP to establish a financial mechanism for the purpose of raising additional funds for the Banco Nacional's operations within 18 months of the signing of the loan agreement. The draft legislation authorizes the raising of capital by the issuance of bonds and loans from the Central Bank.

Possible sources of such financing are AID or other international lending organizations. Over the years the Inter-American Development Bank has made "second tranche" loans.

Another source of additional revenue which was not contemplated in the projections of Annex II is the AID Investment Guaranty Program. Although at present Paraguay has no Investment Guaranty Program, USAID/P has recently requested a \$4.0 million program so that the Guaranty program can be inter-related with the project. While these funds are too expensive to be considered as seed capital, financing needed, they will be of value as growth capital and will serve to enhance the prestige of the S&L system by permitting high lending rates.

Cash flows, income statements and balance sheets were projected through 1976 (beginning with CY 1972) for both the Banco Nacional and the three savings and loan associations (taken as a group). Two different projections were made for 1976 based on two assumptions for the number of houses financed in order to test the financial sensitivity of the two organizational levels to the lack of outside financial inputs (the AID loan would be fully disbursed by 1976). The statements through 1974 were based on a predetermined number of houses which would be financed by the system each year, as follows: 1972, 75 houses; 1973, 135 houses; and 1974, 240 houses. For 1975, when the AID loan is almost disbursed, the number of houses to be financed by the system was determined by estimated cash flows derived principally from new savings in the system. A figure of 240 houses resulted. For 1976, two statements were prepared based on 200 and 240 houses, taking into account again anticipated

new savings. For purposes of computation, an average house price of \$7,000 was assumed as was an average 10% downpayment. New savings in the system each year were assumed to be \$150 thousand (1972); 240 thousand (1973); \$390 thousand (1974); \$600 thousand (1975); and \$900 thousand (1976). Twenty-five year loans were assumed both on mortgages and Banco Nacional Loans to S&L's. Depreciation of S&L and the Banco Nacional office equipment was not included due to the negligible impact on operating results of this factor.

As might be expected, both the Banco Nacional and the S&L's show losses for the first two years, although on a cash flow basis, results are positive due to, in the case of the Banco Nacional, deposit of the GOP contribution, and in the case of the S&L's, the investor capital inflow. Thus all equity contributions should be timely. No attempt was made to include provision for possible increased operating costs over time, because financial results based on constant operating costs permit conclusions as to the effect on results if operating costs are permitted to increase. In the case of the S&L's, control of operating costs will be much more critical than for the Banco Nacional, although as the Banco Nacional's capitalization growth begins to level off as the AID loan is disbursed, operating costs will become an important factor in the rate of growth of retained earnings (thus capitalization). Because AID funds cannot be used to pay operating costs, the Banco Nacional will tend to draw down the AID loan initially to cover loans to S&L's, holding the GOP funds in reserve to meet operating expenses.

The critical assumption for the cash flows is the growth of new savings deposits in the system. A review of the ratio between net new savings each year (estimated new savings less withdrawals to meet downpayments) and total S&L mortgage lending by year shows initially that savings constitute between 15% and 19% of total lending during the first three years of operation. Then, as Banco Nacional lending to S&L's begins to drop as a percentage of total S&L lending due to completion of AID loan disbursements, savings entering the system each year represent a greater percentage of total S&L lending than before. Thus, attraction of savings becomes of paramount importance if the level of lending is to be maintained.

The impact of the AID loan permits, of course, increases in lending levels each year until the loan is almost disbursed when lending levels off. In 1975, the projection at the S&L level was for 240 houses, the same as in 1974. The result was a negative cash flow of \$9 thousand. For 1976, when the same lending level for 240 houses was assumed, a negative cash flow

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of \$37,400 resulted indicating that the system would not be capable of maintaining earlier lending levels even under the assumption that savings would increase by 50% over 1975. The alternate 1976 lending level of 200 houses produced a positive cash flow of \$106.9 thousand indicating that breakeven for 1976 would be about 235 houses. Nevertheless, given continued growth in savings plus the roll-over of mortgage repayments and the interest spread, reasonable levels of lending could be expected. As stated above, new savings would be critical. For the Banco Nacional, with no access to inflow of capital through savings, lending to S&L's falls off from a high of 79% of total S&L lending in the third year of operations (when the largest AID disbursement occurs), to a low of 24% in 1976 (under the 200-house lending assumption). Admittedly S&L lending levels increase also, but the drop in Banco Nacional lending is in absolute as well as percentage terms. Thus the need for additional outside capital becomes apparent during the fourth year of operations, and will become critical by the following year if savings deposits do not reach anticipated levels. The need for additional capital will be even more critical if the Banco Nacional is faced with servicing the needs of any additional associations which may be chartered, as will probably be the case. Concessionary lending to the Banco Nacional is not so important at this juncture because the spread on the AID seed capital, plus the spread on retained earnings should be sufficient to cover reasonable operating requirements.

No payment of dividends by the S&L's on invested capital was assumed. Initially it would be inappropriate given the losses projected. Later, a modest dividend could be paid although careful analysis of the situation should be made in light of the declining ability of the Banco Nacional to make loans, the rising average cost of funds to the S&L's as savings begin to form a larger percentage of lending replacing to an extent the original S&L capital which had no cost, and the possible slower growth in savings than anticipated. While the investors should expect some return it would be prudent on their part, and on part of the Banco Nacional, to develop guidelines governing dividend payout based on preserving the capability of the S&L's to maintain strong lending levels.

To reduce the dependence of the S&L's on the interest spread to meet operating costs, thereby promoting more rapid growth of retained earnings, a 2% commission on mortgage loans was assumed. This percentage is low compared to other Latin American S&L systems (4% is more common) so this rate could be raised if necessary. Other S&L systems also usually provide that individual associations must purchase stock in the central housing bank. This factor was not taken into account because a policy in this respect has not been formulated. The basic result of such a requirement of S&L financial results would be an increased cost of funds (not significant in terms of overall flows of funds through the system). Because the Banco

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Nacional would presumably be lending these funds back to the S&L's no overall reduction in lending capital would result. Banco Nacional profitability would increase due to the spread earned on these funds although over time the spread would be reduced once the Bank began to pay dividends on this capital.

In general, the interest spreads earned at each level, coupled with initial capitalization inflows and later savings inflows, appear to be sufficient to ensure creation of a viable system. Later growth will depend to an important extent on outside capital, although if savings do not grow rapidly, this capital will not have the impact it otherwise could. Nevertheless, while it is likely the Paraguayan S&L system will need more financial assistance - estimated at \$2.0 million - after its fourth year of operation, the system will be self-supporting within the life of the project. The project, therefore, must be considered institutional building. Accordingly, the likelihood is that Paraguayan system will follow the success of the S&L systems in other countries of Latin America.

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PROJECT EXECUTION

PART V

A. IMPLEMENTATION PLAN

The precise structure of the S&L system and the Banco Nacional de Ahorro y Prestamos para la Vivienda is still subject to final execution and legislative approval. However, no problems are expected since the GOP has been involved in the preparation of the legislation establishing the system. The Central Bank, which is responsible for financial institutions, and the Ministry of Finance, which also has a fiscal responsibility for the Government of Paraguay, concur in the draft legislation and the financial aspects of the project. It is expected that the Congress will shortly enact the necessary legislation.

It is, therefore, expected that the Paraguayan S&L system will be legally established by July 1, 1971. After the appointment of the Board of Directors of the Banco Nacional, the Government of Paraguay will make its initial contribution of \$250,000 towards the Banco Nacional's permanent capital and make available funds for its initial budget. The subsequent Government of Paraguay contribution of \$250,000 to the Banco Nacional's capital will be made one year later.

Once the Banco Nacional is legally organized, its Board of Directors with the assistance of USAID, will negotiate a contract with a firm or individuals to provide the technical assistance financed under the loan. The contract will include arrangements for a full-time advisor for a 2-year period to facilitate the establishment of the Banco Nacional's internal organization and the training of its staff members. The full-time advisor will also work with the S&L associations. Under the contract, technical assistance will also be provided through short-term consultants and participant training. The technical assistance contractor will be required to develop a long range program for both the staff of the Banco Nacional and the S&L associations. Particular emphasis will be placed on training in the areas of legal, administrative accounting procedures utilized by the S&L associations.

The President of the Banco Nacional, who will be selected by the President of the Republic with the approval

of USAID, will assume the operational direction of the S&L system. He will hire the initial staff of the Banco Nacional, will prepare operating guidelines and procedures, and in general, organize the S&L system for business. A.I.D. loan funds will be released from time to time on the presentation of disbursing documents, but only after the Government of Paraguay has made its contribution of \$250,000.

B. AREAS OF RESPONSIBILITY

1. Banco Nacional

The primary responsibility for this project rests with the Board of Directors and the President of the Banco Nacional de Ahorro y Préstamos para la Vivienda. The Board with its President will be the group most concerned with the success of the project. It will be the responsibility of the Banco Nacional to establish and plan a comprehensive home financing program and to administer and supervise the activities of the S&L associations.

The Banco Nacional's responsibility in the area of institutional development is to establish a comprehensive long-range program for home financing; to ensure adequate administration and supervision of the S&L associations; and to instill confidence in the general public that savings are protected. The Banco Nacional will also need to ensure that sufficient management training is given to the staff of the S&L associations.

2. USAID

It will be the responsibility of the Private Enterprise Development Office to manage this project, including establishing day-to-day coordination with the Banco Nacional and its technical advisor. The Capital Development Office will coordinate USAID review of progress reports and the opening of Letter of Commitments. USAID has already established a close working relationship with the Paraguayan officials and organizations principally responsible for the development of the S&L system, and this relationship is expected to continue during the life of the project.

C. EVALUATION

Since USAID is assisting in establishing a new development institution, the daily contact between the organizers and the Mission personnel will be close and continuous. Already a sound working relationship has been established. In order to assure the success of the project, responsible staff members of both the Banco Nacional and USAID will conduct an annual joint review of progress.

A.I.D. and the Banco Nacional will jointly establish goals for the S&L system on an annual and 5-year basis upon the inception of the system. These goals will be application of the general project goals. (See below.)

The joint group will, for example, quantify yearly targets by numbers of housing units to be built yearly and amounts of savings deposits. The yearly evaluation will be based on the system's ability to achieve stated goals and the ability to correct impediments that arise in attempting to do its job.

Generally speaking, the annual review, besides considering yearly targets and problems areas in the implementation of the project, will be directed towards accomplishing the goals of the project.

The goals of the project are namely:

1. Establishing an effective S&L system;
2. Constructing homes;
3. Stimulating the home materials and home construction industry.

Thus, progress towards these goals will be the measurement by which USAID and the Banco Nacional itself will evaluate the project.

1. Criteria for Evaluation Project Goals

a. Establishing an Effective Savings and Loan System

A viable savings and loan system requires the mobilization of capital from the private sector of Paraguay

as well as the governmental sector.

In Paraguay, the Government also wants widespread participation in the system. This means that the system requires a multiplicity of deposits from all segments of the middle income population. It also means that the system must generate a secondary mortgage market. Based on these project goals, the basic quantitative evaluation questions become: How many depositors are there? What is the average amount of a deposit? What is the average annual income of the depositors? How many depositors are there from each income level?

To facilitate initial investment in mortgages and their free exchange in secondary markets, the government expects to develop a mortgage insurance program. To help counter the natural illiquidity of mortgages the government will develop a secondary market for the sale of existing mortgages. The Government also expects to legislate a tax exemption for domestic investors in the mortgage market as an incentive to them to make funds available. The standardization of mortgage instruments will also help create a secondary market. The evaluation will address what specific steps the government has taken toward these ends and what more needs to be done to achieve them.

b. Constructing Homes

The whole purpose of the creation of a S&L system is to improve the housing inventory of the middle class, both through new homes and repairs and additions to existing homes. Quantitative evaluation questions then become: How many mortgages for new homes are negotiated each year? How many for improvements? What is the average income of the mortgages? What is the value of the average home built or improved?

c. Stimulating the Home Materials and Home Construction Industry.

A sub-goal of the development of a S&L system and anticipated spin-off effect is the stimulation of the home building sector of the economy. The evaluation will thus look to see: How many men are employed in the home building industry? What part of GNP is associated with the home building industry? What is happening to the imports and

exports of building materials? How many firms are involved in the industry?

At the end of the first five years of the system, a survey will be made to evaluate perceived results of the S&L system. The survey will focus on changes felt by mortgagees as a result of a better home, perception by the public of changes in the home market and attribution by the public of changes in the construction and savings markets to the S&L system.

D. CONDITIONS AND COVENANTS

In addition to the usual covenants and conditions, the project committee recommends that the loan agreement for seed capital contain the following:

1. Except for marine insurance and ocean shipping, goods and services financed under the loan shall have their source and origin in Paraguay and countries included in AID Geographic Code 941. Marine insurance financed under the loan shall have its source and origin in Paraguay or any country included in AID Geographic Code 941, provided, however, that such insurance may be financed under the loan only if it is obtained on a competitive basis and any claims thereunder are payable in convertible currencies. Ocean shipping financed under the loan shall be procured in any country included in AID Geographic Code 941.

2. Borrower shall covenant to provide at least the equivalent of \$500,000 in support of this project and schedule its contribution in accordance with a plan satisfactory to AID during the first 2 years of the Banco Nacional de Ahorro y Préstamos para la Vivienda.

3. Borrower shall covenant to obtain and retain technical assistance which is satisfactory to AID, for the Banco Nacional de Ahorro y Préstamos para la Vivienda for the duration of the project.

4. Prior to any disbursement, the Borrower shall submit, in form and substance satisfactory to AID:

(i) evidence that the Banco Nacional de Ahorro y Préstamos para la Vivienda has a governing body and has hired management both satisfactory to AID and has made staffing arrangements, including requisite technical skills, satisfactory to AID;

(ii) evidence that the policies and procedures, both satisfactory to AID, governing the conduct of the Banco Nacional's operations have been approved by its governing body;

(iii) evidence that the borrower has contributed at least the equivalent in local currency of \$250,000 to the capitalization of the project.

5. Unless AID otherwise agrees in writing, the Banco Nacional de Ahorro y Préstamos para la Vivienda shall not:

(i) permit the S&L associations to make loans for any purpose other than home financing;

(ii) permit the financing of homes valued at more than the equivalent of \$10,000.

6. Disbursements of loan funds shall be made parri passu with the availability of the Borrower's contribution to the capitalization of the Banco Nacional de Ahorro y Préstamos para la Vivienda.

7. The Banco Nacional shall attempt to develop within 18 months of the execution of the loan agreement a source of funds for the Banco Nacional de Ahorro y Préstamos para la Vivienda.

8. Unless AID shall otherwise agree in writing, the Banco Nacional shall not permit the savings and loan associations to distribute profits which exceed a fair return upon invested capital.

9. Unless AID shall otherwise agree in writing, the Banco Nacional shall not make any funds available to any S&L association in excess of three times as much as it has been able to obtain through savings and capitalization.

10. Prior to the first disbursement of the \$2.0 million seed capital loan, a market analysis satisfactory to AID, will be made to provide guidance to the Banco Nacional on the income growth to be served within the \$10,000 limitation on homes.

11. Unless AID otherwise agrees in writing, AID and the Banco Nacional de Ahorro y Préstamos para la Vivienda shall jointly hold a formal review and evaluation of the project not later than 12 months after execution of the loan agreement. Such review, unless otherwise agreed to in writing by AID, would be held annually.

E. IMPLEMENTATION SCHEDULE AND DISBURSEMENTS

- | | |
|---|-------------------|
| 1. Authorization of Loans: | June 1, 1971 |
| 2. Negotiations and Signing of
Technical Assistance Loan
Agreement: | August 1, 1971 |
| 3. Beginning of Loan-financed
Technical Assistance: | September 1, 1971 |
| 4. Negotiation and Signings of
Seed Capital Loan Agreement: | December 1, 1971 |
| 5. Termination Date for Meeting
Conditions Precedent to initial
Disbursement for Project Opera-
tions: | February 1, 1972 |
| 6. Terminal Date for Final Dis-
bursements: | December 31, 1974 |

AID funds will be disbursed through Letters of Commitment to cover the foreign exchange costs of technical assistance. Local currency payments will be made for the most part as reimbursements for authorized expenditures made under the loan. They will be made directly to Banco Nacional by the USAID/Paraguay Mission with local currency purchased with dollars. Monthly loan summaries, quarterly status reports and annual audited financial statements will be provided by Banco Nacional de Ahorro y Préstamos para la Vivienda.

The loan can be disbursed within approximately three and one-half years from authorization.

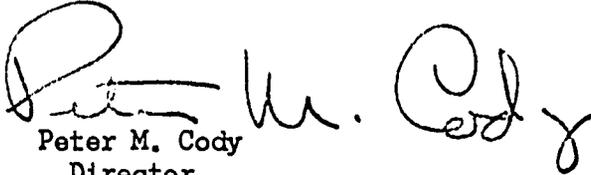
The need of the home financing system and GOP interest in the Project combined with the loan-financed technical assistance present an excellent framework for avoiding delays in accomplishing goals of the loan within the schedule outlined above.

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AID-DLC/P-961
ANNEX I-A

CERTIFICATION PURSUANT TO SECTION 611(e) OF THE
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Peter M. Cody, the principal officer of the Agency for International Development in Paraguay, having taken into account, among other things, the maintenance and utilization of projects previously financed or assisted by the United States, do hereby certify that in my judgement Paraguay has both the financial capability and the human resources capability to effectively maintain and utilize the capital assistance project, Savings and Loan Project - Banco Nacional de Ahorro y Préstamos para la Vivienda.

The Capital Assistance Paper certifies that the Statutory Criteria as applied to Paraguay have been met. This certification is based on, among other factors, a careful review of the financial assistance previously provided to Paraguay.


Peter M. Cody
Director

Date: April 26, 1971

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AID-DIC/P-961
ANNEX I-B

STATE 028443

Dated: February 22, 1971

SUBJECT: HOUSING AND URBAN DEVELOPMENT - IRR APPROVAL - SEED CAPITAL LOAN

CAEC reviewed subject Loan and approved Intensive Review with following comments: 1) Concern expressed over small proposed contribution by GOP, and loan form of contribution. Generally, seed capital loans for Savings and Loan Systems have been matched by grants from Host Country. Mission Director agreed explore possibility similar contribution from GOP and to report back to AID/W prior to reaching any Agreement with GOP re conditions of its contribution. 2) Washington Federal Savings and Loan expert should explore from Technical point of view need for greater contribution from GOP to permit lower mortgage rates. ROGERS.

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WASHINGTON FEDERAL
SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

MERIDIAN AVENUE OFFICE

JACK D. GORDON
President

ARTHUR H. COURSHON
Chairman of the Board

March 31, 1971

Mr. Stanley Baruch, Director
Office of Housing
Room 508 Rosslyn Plaza Building
Agency for International Development
Washington, D. C. 20523

Dear Stanley:

Re: Your undated letter requesting Bernardo Benes' trip to Paraguay.-

In response to your above mentioned letter, I am pleased to confirm my telephone briefing of today.

I. DURATION OF TRIP:

I left Miami, Monday night, March 22nd, and returned on midnight Friday to Saturday, March 26/27.

II. PRIMARY PURPOSE OF THE VISIT:

"To assist the Mission in explaining to the private sector the philosophy and mechanics of a system of savings and loan associations." Assignment accomplished. We met with dozens of very active members of the private sector who might be interested in getting involved in the operations of a savings and loan association. I believe that at present many important businessmen of Paraguay are very well acquainted with the philosophy and mechanics of a system of savings and loan associations.

III. GUIDANCE RELATIVE TO THE PROPOSED LEGISLATION:

During my stay in Paraguay I had meetings with the President of the Central Bank, the Minister of the Treasury, Director of the Planning Office of the Presidency, President and Board of Directors of IPVO, round-table discussion with a group of approximately 30 officers of the Banco Central, Banco Nacional de Fomento, Treasury Department, Planning Department of the Presidency, to also explain the philosophy and mechanics of a savings and loan system. We also met with an important member of Congress. My last meeting was with the President of the Republic of Paraguay, General Alfredo Stroessner. The meeting was overwhelmingly successful. The President of the Central Bank, the Minister of the Treasury and the Minister of Public Works were present. (As Exhibit No. 1 you find enclosed a copy of a summary report on this meeting that was submitted to Mr. Peter Cody, Mission Director.)



1701 Meridian Avenue
Miami Beach, Fla.
33139

1234 Washington Avenue
Miami Beach, Fla.
33139

1133 Normandy Drive
Miami Beach, Fla.
33141

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699 N.E. 167th Street
North Miami Beach, Fla.
33162

Miami: Phone 538-8452

Broward County: Phone 325-4351 (Toll Free)

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SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

ANNEX II-A
Page 2 of 7

Mr. Stanley Baruch, Director
Office of Housing
Room 508 Rosslyn Plaza Building
Agency for International Development
Washington, D. C. 20523

March 31, 1971
Page 2

With Michael Bander, Capital Development Officer of the USAID Mission to Paraguay, we agreed to offer Eduardo Gomién of Chile to go to Asunción for approximately one month -- after a three-day briefing in Miami -- to assist the GOP in the drafting of the legislation, preparation of the AID Mission loan paper and promote lobbyism with members of Congress (see Exhibit No. 2).

We have arranged with the Mission to discuss with Gomién his activities for the next 30 days.

We have also recommended to the Mission that they hire Gomién for a period of at least 1 year as adviser to the system. I spoke to Eduardo Gomién on my way down to Paraguay (at the airport in Santiago), and in principle, he agreed. Upon my return to Miami, last Saturday, I spoke with Gomién over the phone, and I expect him to be in Miami at the end of the present week.

IV. SAVINGS POTENTIAL AND MARKET:

In summary, the feasibility study at a glance clearly established the following facts:

1. There is no mortgage lending available in Paraguay for long-term financing in the country with the exception of a very limited operation of the National Housing Institution (IPVU), which has financed some houses with IDB funds; as a result, the middle income families of Paraguay do not have mechanism to provide them with the possibility of satisfying their housing needs, for which they seem to have sufficient financial capability.
2. There are savings in the country. In fact, at present the numerous commercial banks (10) in the country, most of them foreigners, have more savings of what they can handle, in certificate of deposits and savings accounts (the adviser to the Central Bank of the International Monetary Fund, with whom I met on several occasions, agreed with me on this).
3. There exists a number of Builders with the necessary personnel to start the construction of homes. The construction industry is in the position of following the gradual increase of housing development. In addition, land at reasonable prices is available.

Therefore, it is strongly recommended that a savings and loan system in Paraguay is of the utmost importance.

V. TENTATIVE STRUCTURE OF THE SYSTEM:

The way we see it, the following describes the beginning of the savings and loan system in Paraguay:

Legislation to be passed creating an autonomous agency

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ANNEX II-A
Page 3 of 7

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March 31, 1971
Page 4

3. Explanation to the Paraguayan legislators of the philosophy and mechanics of a savings and loan system.

4. Promotion for the organization of three private groups to operate the savings and loan associations.

From 30 to 90 days:

1. Passing of legislation by Congress.
2. Appointment of the President of the Banco Nacional de Ahorro y Préstamo.
3. Organization of the three savings and loan associations, and appointment of the general managers.
4. Training of the aforementioned individuals.
5. Approval by AID of the "seed capital" loan.

From 90 to 120 days:

1. Inauguration of the Banco Nacional de Ahorro y Préstamo.
2. Inauguration of the savings and loan associations.
3. Further development and training.

In order to accomplish this timetable, it is essential that Eduardo Gomión services be engaged for at least the above period of time, but as stated before, I believe that he should be hired for a minimum of one to two years. I also feel that it is important that we keep in contact with all the developments.

VIII. GENERAL:

1. Enclosed is Exhibit No. 3 with the names of all the people with whom we met during our stay in Paraguay.
2. On my way down to Asunción I stayed overnight in Buenos Aires where I met with José R. Martín, a savings and loan specialist, who insisted in going

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Page 4 of 7

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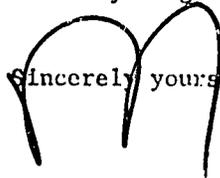
March 31, 1971
Page 5

with me because he had to go to Rio de Janeiro to attend a conference in Latin American housing. Mr. Martín's presence was helpful. A summary of his impressions appears as Exhibit No. 4 attached.

3. The news media, including newspapers, T.V. and radio gave a good coverage of our activities.

4. Finally, I want to assure you that I received a magnificent support from all the staff of the AID Mission, from the Director, Mr. Peter Cody down to the secretaries, and particularly from Mr. Michael Bander and his assistant, Mr. Julio Basualdo. Without these two officers' participation, we would not have been able to perform and accomplish everything we did in our short stay in Asunción.

Sincerely yours,



Bernardo Benes
Vice President

Enclosures

cc: Mr. Harold Robinson, AID/W
Mr. Peter Kinn, AID/W
Mr. Edward Palash, AID/W
Mr. Michael Bander, USAID/M to Paraguay

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March 31, 1971
Page 3

be called Banco Nacional de Ahorro y Préstamo. This Institution would have the following main functions:

1. To charter stock-owned and mutual savings and loan institutions.
2. To supervise them, and to act in general as a regulatory agency.
3. To act as financial agent to the associations when liquidity problem arises.
4. To provide mortgage and savings insurance.

The Banco Nacional de Ahorro y Préstamo should be controlled by the Superintendency of Banks which is a department of the Central Bank of Paraguay.

It is recommended that at the beginning, three private groups be formed to operate three stock-owned savings and loan associations.

VI. INITIAL CAPITALIZATION:

The total amount of capital entering into the system is anticipated as follows:

Three assns. at \$150,000 initial capitalization	\$ 450,000	
GOP Contribution.....	500,000	
AID seed capital loan.....	<u>2,000,000</u>	
TOTAL		<u>\$2,950,000</u>

(at present they have liquidity problems. Therefore, possibility of donation of land or GOP Bonds were discussed).

VII. TENTATIVE TIMETABLE:

Within the next 30 days:

1. Presentation of proposed legislation to Congress.
2. Draft of AID loan paper.

MEMORANDUM

TO: PETER CODY, Mission Director

FROM: BERNARDO BENES

REFERENCE: Meeting with the President of the Republic to discuss the creation of a savings and loan system in Paraguay.

PARTICIPANTS: President of the Republic, General Alfredo Stroessner
President of the Central Bank, Dr. César Romero Acosta
Minister of the Treasury, General César Barrientos
Minister of Public Works, General Marcial Samaniego
Mr. José R. Martín, Savings and Loan Expert from Argentina
who accompanied me.

DURATION OF THE MEETING: 35 minutes

DATE OF MEETING: Friday, March 26, 1971

SUMMARY:

The President was very open, sincere and the conversation was a very pleasant dialogue between he and I with some very short and pertinent participation of Dr. Acosta and Mr. Martín.

The President overwhelmingly accepted the idea of the creation of a S & L system to be created immediately.

1. I drafted a graph on how we see the organization of the system and he immediately said, pointing to the graph: "This is the beginning of a historic moment for the Paraguayans. I know that this document will be an important piece of paper in the future and I want to keep it."
2. He was very interested in the idea of having the public and private sectors coordinate efforts in this area of housing.
3. He reacted very favorably when I told him that the best thing for Paraguay was to produce the maximum number of houses for the maximum number of families. This was in reference to having the private sector making the mortgage loans rather than the public sector, which means that it is not important for him that the public sector keeps the power of making the individual mortgage loans.
4. The President of the Central Bank assured him that one of the first ante-proyecto draft laws to be taken to Congress will be in this regard.
5. I stressed the support from AID in the area of technical assistance in the drafting of this legislation and implementation process, training of personnel, and seed capital. He reacted very favorably.

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ANNEX II-A
Page 7 of 7
Exhibit 1
Page 2 of 2

6. He was very interested in knowing the people of the private sector that were enthused about this idea. We did not mention all the names, only the name of the President of COMDESA. He reacted favorably. He understood and accepted the fact that Paraguay was ripe for this development. He also reacted dynamically and outspokenly when I said that they had the advantage of gaining from the experience of all the Latin American countries. He specifically said: "That is very important because we will avoid making mistakes."

7. He instructed Dr. Acosta, President of Banco Central to work on it. Dr. Acosta replied favorably saying that he was preparing an ante-proyecto.

8. We briefly discussed IPVU and I gave him some ideas of how to improve it.

IMPORTANT: As soon as we left the meeting, the news media asked me to inform them, which I did. As soon as I arrived at the AID Mission, I received a telephone call from Dr. Acosta, President of Banco Central who told me, more or less: "The President of the Republic asked me to tell you that he was very impressed with the meeting and with your attitude, that he expects you to continue to immediately support the implementation of this Program and to sincerely thank you for your interest in the welfare of the Paraguayan people." Basically, Dr. Acosta in addition to transmitting the President's message said in a few words: "Don't let me down; come through with your assistance." I informed him that in one week he was getting a Chilean expert who would be working with him in the preparation of the Law and that he could be sure that he will get AID's support. Dr. Rotela went to the airport to wish me luck and thanked me. I took the opportunity of telling him that without hurting his professional knowledge, he should listen to Gomién, and if he had any basic difference of opinion that he should inform Bander. I explained Dr. Rotela of Gomién's qualifications and identification with us, and informed him of the results of the meeting with the President and the subsequent telephone call from Dr. Acosta.

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GENERAL DESCRIPTION OF THE DUTIES OF EACH OFFICE OR DEPARTMENT

I. Board of Directors

The Board of Directors will be made up of five Directors appointed as follows:

- a) One Director, by the Executive Power. This Director will also be the President of the Banco Nacional de Ahorro y Préstamos para la Vivienda;
- b) One Director and his alternate, by the Ministry of Finance;
- c) One Director and his alternate, by the Central Bank of Paraguay;
- d) One Director and his alternate, by the Savings and Loan Associations;
- e) One Director and his alternate, by Professional Associations, such as Engineers, Architects, and Builders.

II. The President

The President of the Banco Nacional will be a person appointed by the Executive Power. He will have technical abilities in financial institutions.

III. Public Relations

Public Relations will be handled by one person appointed by the Board of Directors.

IV. Legal Advisor

Legal Advice will be handled by a lawyer who will be the Legal Advisor.

V. Departments

The Banco Nacional de Ahorro y Préstamos para la Vivienda will have three basic Departments: Operations, Technical, and Administrative.

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ANNEX II-C

Page 2 of 3

1. Operations Department

This department will be under an economist and it will be made up of the following sections: (i) Finance, and (ii) Insurance of Savings Accounts and Mortgages.

- (i) Finance Section: This section will review all applications concerning financial assistance from Savings and Loan Associations. The engineer will have the responsibility for making appraisal of mortgage loans. The lawyer will have the responsibility for legal assistance to the S&L.
- (ii) Insurance of Savings Accounts and Mortgages: This section will be in charge of handling all kinds of insurances relating to Savings Accounts and Mortgages.

2. Technical Department

This department will be under an economist and it will be made up of the following sections: (i) Technical Assistance, and (ii) Association Supervision.

- (i) Technical Assistance: This section will have a group of experts in charge of technical and legal assistance to the Associations.
- (ii) Association Supervision: This section will be in charge of controlling the use of funds allocated to the Associations. It will also make sure that all appropriate regulations are followed.

3. Administrative Department

This department will be under an economist who will have a degree either in economics or administration. This department will be made up of the following sections: (i) Accounting, and (ii) Personnel.

- (i) Accounting Section: This section will be in charge of the following: (i) handling the Banco's accounting; (ii) control of inventories and cash in hand; (iii) procurement and supply of materials and (iv) insurance of the Banco's properties.
- (ii) Personnel Section: This section will be in charge of the following: (i) selection and recruitment of personnel for the Banco Nacional; (ii) preparing a descriptive job manual for the Banco Nacional.

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ANNEX II-C

Page 3 of 3

VI. Auditor's Office

This office will be at the level of the Board of Director and it will be under a Certified Public Accountant appointed by the Executive Power. Appointment to this position will be indefinite.

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SUMMARY OF BANCO NACIONAL DE AHORRO Y PRESTAMOS
PARA LA VIVIENDA PERSONNEL

I	-	Board of Directors	5 Directors and 4 Alternates
II	-	President	1 President 1 Executive Secretary 1 Messenger - Driver
III	-	Public Relations	1 Expert
IV	-	Legal Advisor	1 Lawyer
V	-	Departments:	
		A. Operations Department	1 Economist 1 Secretary
		Sections:	
		a. Finance	1 Economist
		b. Insurance of Savings Acc. and Mortgages	1 Expert
		B. Technical Department	
		Sections:	
		a. Technical Assistance	1 Economist 1 Engineer 1 Lawyer
		b. Associations Supervision	1 Economist
		C. Administrative Department	1 Economist, Business Administration Expert 1 Secretary
		Sections:	
		a. Accounting	1 Certified Public Accountant
		b. Personnel	(Same as C)
		D. Auditor's Office	1 Auditor (Certif.Public Acc) 1 Typist
		TOTAL BNAPV Personnel	23 Persons

COST ESTIMATE OF FEES AND SALARIES OF THE BANCO NACIONAL DE AHORRO
 Y PRESTAMOS PARA LA VIVIENDA PERSONNEL
 (In US Dollars)

	<u>Total Monthly</u>	<u>Total Annually</u>
1) <u>Board of Directors</u>		
5 Directors, \$160 per month per each Director	800	9,600
2) <u>President</u>		
1 President	480	5,760
1 Executive Secretary	200	2,400
1 Messenger-Driver	100	1,200
3) <u>Public Relations</u>		
1 Expert	240	2,880
4) <u>Legal Advice</u>		
1 Lawyer	240	2,880
5) <u>Operations Department</u>		
1 Economist	320	3,840
1 Secretary	160	1,920
1 Economist for Finance Section	240	2,880
1 Expert for the Insurance Section	240	2,880
6) <u>Technical Department</u>		
1 Economist	320	3,840
1 Engineer	240	2,880
1 Lawyer	240	2,880
1 Economist for the Supervision Sec.	240	2,880
7) <u>Administrative Department</u>		
1 Economist, or Business Administration Expert	320	3,840
1 Secretary	160	1,920
1 Certified Public Accountant	240	2,880
8) <u>Auditor's Office</u>		
1 Certified Public Accountant	320	3,840
1 Secretary	160	1,920
	<u>5,260</u>	<u>63,120</u>

ESTIMATE OF OPERATIONAL COST OF THE BANCO NACIONAL
DE AHORRO Y PRESTAMOS PARA LA VIVIENDA

	<u>Dollars</u>
Salaries and fees	63,120
Office rental and utilities	8,000
Depreciation and amortization	4,000
Propaganda	1,000
Telephone	1,000
Postage	250
Maintenance and repair	800
Office equipment, stationary and printing matters	2,000
Cables	500
President's expense allowance	2,500
Travel expenses	800
Public relations expenses	2,500
Maintenance and gasoline for vehicles	2,400
Insurance	800
Office arrangements and repairs	600
Other expenses	1,500
	<hr/>
TOTAL:	91,770

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DISTRIBUTION OF TECHNICAL ASSISTANCE

The technical assistance aspects of the loan call for a full-time advisor to the Banco Nacional. This consultant will work closely with the President and the Board of Directors of the Banco Nacional. He will also have responsibilities to assist the associations that are chartered by the Banco Nacional. It is estimated that for a two-year period the total expenses involved to have such an individual in Asuncion would be \$45,000.

Short-term consultants will also be made available throughout the life of the project. These short-term consultants will give technical assistance in the areas of accounting, public relations, legal matters, and other such related topics. It is envisioned that the short-term consultants will be working mostly with the Savings and Loan associations. \$15,000 of the technical assistance aspects is budgeted for these services.

A third aspect of the technical assistance will be participant training. This participant training will most likely consist of training periods with either the American Savings and Loan Institute or Washington Federal Savings and Loan Association. The participants will come from both the Banco Nacional and Savings and Loan associations. The S&L associations will be encouraged to use their own funds for this training. \$40,000 is planned for the expenses of participant training.

PLANNED OPERATING POLICY OF THE
Banco Nacional de Ahorro y
Préstamo para la Vivienda*

The Banco Nacional de Ahorro y Préstamo para la Vivienda will have authority to:

- a) authorize and promote, on its own, the establishment of Savings & Loan Associations, in places where the needs of the country so require it, taking into account the demographic and economic conditions of the various regions;
- b) charter and regulate the stock owned or mutual savings and loan associations;
- c) provide technical and financial assistance to the Associations;
- d) promote the investment of public and private resources both national and foreign for the solution of the housing problem;
- e) guarantee savings deposits made in the Associations and establish the corresponding downpayment that these should pay to the Banco Nacional;
- f) develop the secondary market for mortgages and participate in it either on its own or through third parties;
- g) issue bonds, negotiate loans, and obtain financial resources on the open market;
- h) guarantee mortgage loans made in favor of the Associations and establish and change downpayments, fees, honoraries and other expenditures required by the guaranty;

* Prepared by the ad hoc committee of the Central Bank for planning purposes.

- i) supervise the functioning of the Associations and establish its legal services taking into account their probable revenues.

In general, the Banco Nacional de Ahorro y Préstamos para la Vivienda will help the Associations by granting long term loans to increase their financial capacity or short term loans to satisfy the needs of their liquidity.

To assure that each S&L Association will have a reasonably equal opportunity to use AID funds, the Banco Nacional will establish a policy which will encourage the S&L's to attract savings and, at the same time, assist the small S&L's. Thus, an S&L association will probably be permitted to draw on the Banco Nacional for no more than three times as much as it has been able to obtain through savings and capitalization.

The Banco Nacional will set forth cash reserves, rates, interests, rights, commissions and whatever other standards it deems appropriate to apply to the Associations. The system's economic and credit policy established and carried out by the Banco Nacional will be in harmony with the economic and banking policy of the country.

The Banco Nacional will begin immediately to work with the GOP to establish a permanent source of revenue for increased capitalization. The issuance of bonds (National Housing Bonds) will be encouraged.

The S&L Associations will be limited to distributing as profits only a fair return on invested capital. The Board of Directors shall set the policy with regard to distribution of profits.

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PLANNED OPERATING POLICY OF THE S&L ASSOCIATIONS*

The operating policy of the S&L associations will be based on the following principles, which will be also included in the loan establishing the S&L system.

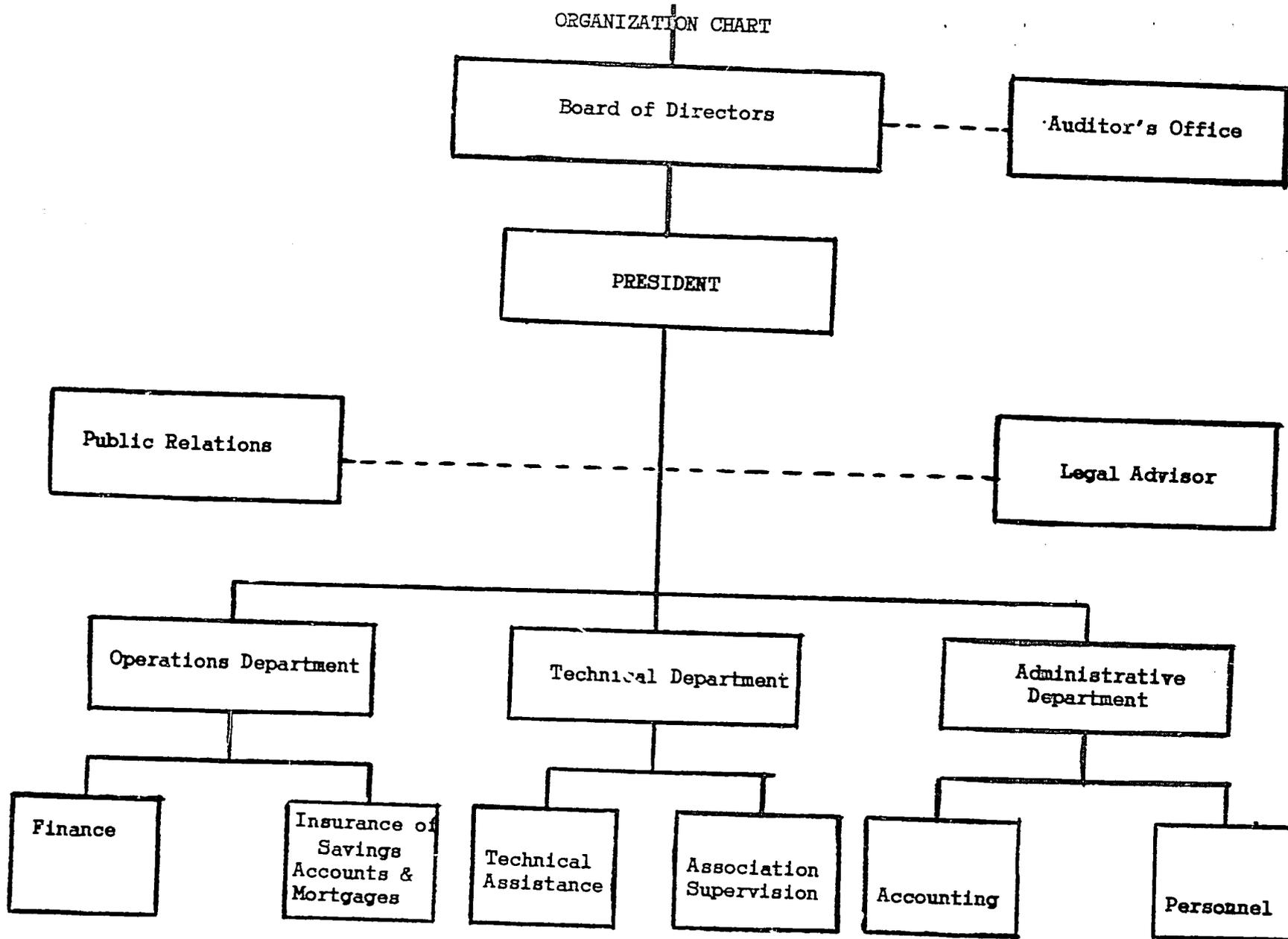
- a) The Associations will be able to receive savings deposits to be credited to individual accounts in the name of depositors. The rate of interest paid for these deposits will not exceed the maximum approved by the Banco Nacional for savings accounts. Commercial banks in Paraguay are now paying between 6-8% a year. The S&L's will pay a competitive rate of interest. It is expected that the S&L's will pay at least 8%. Interests will be paid at least semi-annually, estimated on the amounts in the savings accounts on the last work day of the months of June and December of each year. Each balance will earn interest only during complete calendar months during which the account was kept, and fractions of months will not be taken into consideration.
- b) The savers will, at any time, be able to withdraw their savings either in whole or in part. However, the Banco Nacional will, when it considers advisable, be able to establish a warning of up to thirty days for withdrawal of the savings.
- c) The Associations will grant mortgage loans for the purchase, construction, expansion, and repair of homes. Purchase can only be financed in case of new homes, that is, when borrower is the first occupant.

* Prepared by the ad hoc committee of the Central Bank for planning purposes.

- d) The Associations will not be empowered to invest funds directly in real property except to establish their offices and subsidiaries. However, loans for the construction of homes may include the purchase and urbanization of the corresponding site or parcel.
- e) The maximum term of loans made to borrowers shall not exceed 25 years nor 90% of the value of the property. Loans for more than \$8,000 will require a larger downpayment than 10% of the value of the property.
- f) The Associations will insure saving deposits and mortgages through the procedures established by the Banco Nacional.

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ORGANIZATION CHART



Consolidated Cash Flow and Income Statement - Three S&L Associations (in 000's dollars)

	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976 (A)</u>	<u>1976 (B)</u>
Source of Funds						
Cash on hand	450.-	175.-	31.5	46.5	(9.-)	(9.-)
Savings on deposit (net)	97.5	145.5	222.-	432.-	760.-	732.-
Borrowings (from BN)	242.5	475.-	1200.-	800.-	300.-	450.-
Mortgage Repayments	21.2	51.5	111.8	172.1	222.5	232.4
Commissions earned	10.6	15.1	30.2	30.2	25.2	30.2
Interest earned	<u>68.8</u>	<u>164.3</u>	<u>359.6</u>	<u>536.2</u>	<u>677.6</u>	<u>710.4</u>
Total Available Cash	890.6	1026.4	1955.1	2017.-	1976.3	2146.-
Use of Funds						
Loans for mortgages	529.2	756.-	1512.-	1512.-	1260.-	1512.-
Purchase of office equip.	15.-	-	-	-	-	-
Loan repayment to BN	9.7	28.7	76.7	104.1	118.1	131.5
Interest paid on deposits	7.3	19.4	37.5	71.8	132.6	169.-
Interest paid to BN	19.4	55.8	147.4	203.1	223.7	235.9
Other operating expenses	135.-	135.-	135.-	135.-	135.-	135.-
Dividends on (capital)	-	-	-	-	-	-
Total Cash Used	<u>715.6</u>	<u>994.9</u>	<u>1908.6</u>	<u>2026.-</u>	<u>1869.4</u>	<u>2183.4</u>
Cash In (out)	<u>175.-</u>	<u>31.5</u>	<u>46.5</u>	<u>(9.-)</u>	<u>106.9</u>	<u>(37.4)</u>
Income Statement						
Income						
Commissions Earned	10.6	15.1	30.2	30.2	25.2	30.2
Interest Earned	<u>68.8</u>	<u>164.3</u>	<u>359.6</u>	<u>536.2</u>	<u>677.6</u>	<u>710.6</u>
Total Income	79.4	179.4	389.8	566.4	702.8	740.6
Expenses						
Interest paid on deposits	7.3	19.4	37.5	71.8	132.6	169.-
Interest paid to BN	19.4	55.8	147.4	203.1	223.7	235.9
Operating Expenses	<u>135.-</u>	<u>135.-</u>	<u>135.-</u>	<u>135.-</u>	<u>135.-</u>	<u>135.-</u>
Total Expenses	161.7	210.2	319.9	409.9	491.3	539.9
Profit (Loss) - to retained earnings	(82.3)	(30.8)	69.9	156.5	211.5	200.7

CONSOLIDATED BALANCE SHEET - THREE S&L ASSOCIATIONS (IN 000'S OF DOLLARS)

	<u>12-31-72</u>	<u>12-31-73</u>	<u>12-31-74</u>	<u>12-31-75</u>	<u>12-31-76(A)</u>	<u>12-31-76(B)</u>
Assets						
Cash	175.0	31.5	46.5	(9.0)	106.9	(37.4)
Mortgages Receivables	529.2	1285.2	2797.2	4309.2	5569.2	5821.2
Less cumulative repayments	<u>21.2</u>	<u>72.7</u>	<u>184.5</u>	<u>356.6</u>	<u>579.1</u>	<u>589.0</u>
Office Equipment	15.0	15.0	15.0	15.0	15.0	15.0
Total Assets	<u>698.0</u>	<u>1259.0</u>	<u>2674.2</u>	<u>3958.6</u>	<u>5112.0</u>	<u>5232.2</u>
						<u>15.0</u>
						<u>5209.8</u>
Liabilities and Equity						
Liabilities						
Depositor Savings	150.0	390.0	780.0	1380.0	2280.0	2280.0
Less Withdrawls for downpay.	<u>52.5</u>	<u>147.0</u>	<u>315.0</u>	<u>483.0</u>	<u>623.0</u>	<u>651.0</u>
Loans Payable to B.N.	242.5	717.5	1917.5	2717.5	3017.5	3167.5
Less cumulative repayments	<u>9.7</u>	<u>38.4</u>	<u>115.1</u>	<u>219.2</u>	<u>337.3</u>	<u>350.7</u>
Sub-Total Liabilities	<u>330.3</u>	<u>679.1</u>	<u>1802.4</u>	<u>2498.3</u>	<u>2680.2</u>	<u>2816.8</u>
Equity						
Invested Capital	450.0	450.0	450.0	450.0	450.0	450.0
Retained Earnings	<u>(82.3)</u>	<u>(113.1)</u>	<u>(43.2)</u>	<u>113.3</u>	<u>324.8</u>	<u>314.0</u>
Sub-Total Equity	<u>367.7</u>	<u>336.9</u>	<u>406.8</u>	<u>563.3</u>	<u>774.8</u>	<u>764.0</u>
Total Liabilities and Equity	698.0	1259.0	2674.2	3958.6	5112.0	5209.8

Cash Flow and Income Statement - Banco Nacional (in 000's of dollars)

	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976 (A)</u>	<u>1976 (B)</u>
Source of Funds						
Cash on hand	250.-	344.6	262.1	394.2	44.4	44.4
Draw on AID loan	165.-	400.-	1200.-	235.-	-	-
Loan repayments	9.7	28.7	76.7	104.1	118.1	131.5
Interest Earned	<u>19.4</u>	<u>55.8</u>	<u>147.4</u>	<u>203.1</u>	<u>223.7</u>	<u>235.9</u>
	444.1	829.1	1686.2	936.4	386.2	411.8
Use of Funds						
Loans to S&L's	242.5	475.-	1200.-	800.-	300.-	450.-
Purchase of office equip.	15.-	-	-	-	-	-
Operating Expenses	92.-	92.-	92.-	92.-	92.-	92.-
Interest on borrowed capital	-	-	-	-	-	-
	<u>349.5</u>	<u>567.-</u>	<u>1292.-</u>	<u>892.-</u>	<u>392.-</u>	<u>542.-</u>
Cash In (out)	94.6	262.1	394.2	44.4	(5.8)	(130.2)
Income Statement						
Income						
Interest earned	<u>19.4</u>	<u>55.8</u>	<u>147.4</u>	<u>203.1</u>	<u>223.7</u>	<u>235.9</u>
Total Income	19.4	55.8	147.4	203.1	223.7	235.9
Expenses						
Operating Expenses	<u>92.-</u>	<u>92.-</u>	<u>92.-</u>	<u>92.-</u>	<u>92.-</u>	<u>92.-</u>
Total Expenses	92.-	92.-	92.-	92.-	92.-	92.-
Profit (loss) - to retained earnings	(72.6)	(36.2)	55.4	111.1	131.7	143.9

BALANCE SHEET - BANCO NACIONAL (IN 000's OF DOLLARS)

	<u>12-31-72</u>	<u>12-31-73</u>	<u>12-31-74</u>	<u>12-31-75</u>	<u>12-31-76(A)</u>	<u>12-31-76(B)</u>
Assets						
Cash	94.6	262.1	394.2	44.4	(5.8)	(130.2)
Office Equipment	15.0	15.0	15.0	15.0	15.0	15.0
Mortgages Receivable	242.5	717.5	1917.5	2717.5	3017.5	3167.5
Less Repayments	<u>9.7</u>	<u>38.4</u>	<u>115.1</u>	<u>219.2</u>	<u>337.3</u>	<u>350.7</u>
Total Assets	<u>232.8</u>	<u>679.1</u>	<u>1802.4</u>	<u>2498.3</u>	<u>2680.2</u>	<u>2816.8</u>
	342.4	956.2	1211.6	2557.7	2689.4	2701.6
Liabilities & Capital Account						
Liabilities						
Loans Payable	-	-	-	-	-	-
Capital Account						
GOP Contribution	250.0	500.0	500.0	500.0	500.00	500.0
AID Loan Capitalized	<u>165.0</u>	<u>415.0</u>	<u>1065.0</u>	<u>2265.0</u>	<u>2000.00</u>	<u>2500.0</u>
Retained Earnings	(72.6)	(108.8)	(51.4)	57.7	189.4	201.6
Total Liabilities and Capital	<u>342.4</u>	<u>956.2</u>	<u>2211.6</u>	<u>2557.7</u>	<u>2689.4</u>	<u>2701.6</u>

Ratios

	<u>1972</u>		<u>1973</u>		<u>1974</u>		<u>1975</u>		<u>1976 (A)</u>		<u>1976 (B)</u>	
<u>Loans from BN to S&L's</u>	<u>243</u>		<u>475</u>		<u>1200</u>		<u>800</u>		<u>300</u>		<u>450</u>	
Total S&L Mortgage Loans	529	46%	756	63%	1512	79%	1512	53%	1260	24%	1512	30%
<u>New Savings in S&L's (NET)</u>	<u>98</u>		<u>146</u>		<u>222</u>		<u>432</u>		<u>760</u>		<u>732</u>	
Total S&L Mortgage Loans	529	19%	756	19%	1512	15%	1512	29%	1260	60%	1512	48%
<u>S&L Liabilities</u>	<u>330</u>		<u>922</u>		<u>2267</u>		<u>3395</u>		<u>4337</u>		<u>4446</u>	
S&L Equity	368	90%	337	270%	407	556%	563	603%	775	558%	764	582%
<u>AID Loan Disbursed to BN</u>	<u>165</u>		<u>400</u>		<u>1200</u>		<u>235</u>		<u>-</u>		<u>-</u>	
Loans to S&L's by BN	243	68%	475	34%	1200	100%	800	29%	300	0%	450	0%
<u>BN Expenses</u>	<u>92</u>		<u>92</u>		<u>92</u>		<u>92</u>		<u>92</u>		<u>92</u>	
BN Income	19	205%	56	117%	147	63%	203	45%	224	41%	236	39%
<u>S&L Expenses</u>	<u>162</u>		<u>210</u>		<u>320</u>		<u>410</u>		<u>491</u>		<u>540</u>	
S&L Income	79	49%	179	85%	390	82%	566	72%	703	70%	741	73%
<u>BN Loans to S&J's</u>	<u>243</u>		<u>475</u>		<u>1200</u>		<u>800</u>		<u>300</u>		<u>450</u>	
S&L Capital-Savings	600	41%	690	69%	840	143%	1050	76%	1350	22%	1350	33%
<u>AID Loan Disbursed to BN</u>	<u>165</u>		<u>400</u>		<u>1200</u>		<u>235</u>		<u>-</u>		<u>-</u>	
Total S&L Loans	529	31%	756	53%	1512	80%	1512	16%	1512	0%	1512	0%

CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

In the right-hand margin, for each item write answer or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1971.

MMA - Merchant Marine Act of 1936, as amended

COUNTRY PERFORMANCEProgress Towards Country Goals1. FAA § 208; §.251(b).

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

(1) The Government of Paraguay has made substantial progress in new programs designed to increase food production. During the period 1964 to 1970 production of wheat increased from 8,800 MT to 36,000 MT, soybeans from 10,000 MT to 45,000 MT, and rice from 20,000 MT to 35,000 MT. Further expansion of food production is planned.

(2) Recently the GOP enacted a new investment law (Ley No. 216, Nov. 9, 1970) which offers advantageous terms for foreign investors. A private development bank (COMDESA) created with AID assistance is now operating. The GOP has repeatedly encouraged foreign private investors and strongly supports AID's investment guarantee programs.

(3) Increasing the public's role in the developmental process.

(3) This project, the municipal development project, the educational development program and the recently creation of regional development centers in the principal cities outside Asuncion, will increase the public's role in the development process. The GOP provides land to colonists and technical assistance to small producers.

(4) (a) Allocating available budgetary resources to development.

(4)(a) Paraguay allocates substantial portion of its national budget to development.

(b) Diverting such resources for unnecessary military expenditure (see also Item No. 16.) and intervention in affairs of other free and independent nations. (See also Item No. 14.)

(4)(b) AID/W has reviewed the level of Paraguay's military expenditures and found it to be within acceptable limits. A considerable part of the Army's Engineer Command is devoted to construction of farm-to-market roads. There is no known intervention in the affairs of other countries.

(5) Willing to contribute funds to the project or program.

(5) The GOP is making a substantial contribution of \$500,000 to the project. Also the private sector will join forces in this initial effort to establish a home financing system.

(6) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

(6) The GOP has improved its tax collection efforts in the past years, increasing tax revenues from \$6.7 billion in 1967 to \$8.8 in 1970. The Paraguayan Congress has recently enacted a broadly based income tax law. The President of the Republic should shortly sign this legislation which will take effect July 1, 1971.

(7) Adhering to the principles of the Act of Bogota and Charter of Punta del Este.

(7) Paraguay adheres to the principles of the Act of Bogota and the Charter of Punta del Este.

(8) Attempting to repatriate capital invested in other countries by its own citizens.

(8) Not applicable since Paraguay's investment in other countries is negligible.

(9) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

(9) A new Constitution was adopted in November 1967, which, by providing a popularly elected bi-cameral legislature, increases popular participation in government. Paraguay is demonstrating a clear determination to take effective self-help measures, as shown by recent increase in collection of various kinds of taxes, and contributions from its own sources toward agriculture and educational reform. The GOP has demonstrated its determination to implement CIAP and AID recommended self-help measures.

B. Are above factors taken into account in the furnishing of the subject assistance?

effective self-help measures. as shown by recent increase in collection of various kinds of taxes, and contributions from its own sources toward agriculture and educational reform. The GOP has demonstrated its determination to implement CIAP and AID recommended self-help measures.

B. The above factors have been taken into account in the furnishing of subject assistance.

Treatment of U.S. Citizens

2. FAA § 620(c). *If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?*
 2. No such cases are known to exist in Paraguay.

3. FAA § 620(e)(1). *If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing-ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?*
 3. Not applicable.

(6) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

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3. **Not applicable.**

4. FAA § 620(o); Fishermen's Protective Act. 8.5. *If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,*

4. Not applicable to Paraguay as it is an inland country without any fishing activity in international waters.

a. *has any deduction required by Fishermen's Protective Act been made?*

4. a. Not applicable.

b. *has complete denial of assistance been considered by A.I.D. Administrator?*

4. b. Not applicable.

Relations with U.S. Government and Other Nations

5. FAA § 620(d). *If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?*

5. Not applicable.

6. FAA § 620(j). *Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action, of U.S. property?*

6. There have been no incidents or damage by mob action against U.S. property in Paraguay. Adequate measures have been taken to prevent them.

7. FAA § 620(l). *If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?*
7. Paraguay has signed a Specific Risk Guarantee Agreement with the U.S.
8. FAA § 620(q). *Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?*
8. Paraguay is not in default on interest or principal on any AID loan.
9. FAA § 620(t). *Has the country severed diplomatic relations with U.S.? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?*
9. Not applicable. Paraguay has consistently maintained diplomatic relations with the United States.
10. FAA § 620(u). *What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearage taken into account by the A.I.D. Administrator in determining the current A.I.D. Operating Year Budget?*
10. Paraguay is not delinquent on its U.N. obligations.
11. FAA § 620(a). *Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?*
11. According to the best information available, Paraguay allows none of the prescribed activities.

12. FAA § 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?
12. The Secretary of State has determined that Paraguay is not controlled by the communist movement.
13. FAA § 620(f). Is recipient country a Communist country?
13. No.
14. FAA § 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the U.S. or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?
14. Paraguay is not in any way so involved.
15. FAA § 620(n). Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?
15. According to the best information available, no Paraguayan ships or aircraft transport cargoes to or from North Viet Nam.

Military Expenditures

16. FAA § 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points to be coordinated with PPC/MAS.)
16. 18.9% of Paraguay's budget for 1970 was allocated to the Ministry of Defense. An estimated maximum of \$1.0 million in foreign exchange resources were spend on military equipment in 1970. No funds were expended on sophisticated weapons systems. AID/W has determined that Paraguay is not devoting an unnecessary percentage of its budget for military purposes.

CONDITIONS OF THE LOANGeneral Soundness

17. FAA § 201(d). *Information and conclusion on reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.*
17. Loan terms are consistent with U.S. and Paraguayan laws. The lending terms of the loan are considered reasonable in comparison with other sources of financing available.
18. FAA § 251(b)(2); §.251(e). *Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?*
18. The activity is concluded to be economically and technically sound. The application for this loan, plus detailed discussions before and after receipt of the application give sufficient information and assurance that the funds will be used in an economically and technically sound manner.

19. FAA § 251(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.
19. It is concluded that Paraguay has the capacity to repay and that there is reasonable assurance of repayment.
20. FAA § 611(a)(1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?
20. There will be financial and technical assistance plans prior to the signing of the loan. A reasonable estimate of the cost to the U.S. of the activity to be financed has been obtained.
21. FAA § 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purposes of loan?
21. Congressional ratification of the loan is necessary. Legislation establishing a national S&L system, including the Banco Nacional de Ahorro y Préstamos para la Vivienda, must be enacted. Based on the stated interest of the GOP and the assurances from the Executive Branch, there is a reasonable basis to anticipate that legislative action will be taken in time to permit orderly accomplishment of the purposes of the loan.
22. FAA § 611(e). If loan is for capital assistance, and all U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?
22. See Annex I for Mission Director's Certification.
23. FAA § 251(b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.
23. Financing for this project is not available from other free-world sources, including private sources within the U.S.

Loan's Relationship to Achievement
of Country and Regional Goals

24. FAA § 207; § 251(a). Extent to which assistance reflects appropriate emphasis on; (a) encouraging development of democratic economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs, or (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and voluntary agencies; transportation and communication; planning and public administration; urban development; and modernization of existing laws.
25. FAA § 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?
26. FAA § 251(b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.
24. (a). The effect on democratic economical, political and social institutions will be a direct one. The establishment of a home financing system will permit the middle income families of Paraguay an opportunity to purchase and own homes. This should increase faith in the governmental process and broaden citizen participation in the economic and social life of the country. (b) This assistance will have not direct effect in meeting the country's food needs. (c) The technical assistance aspect of this loan should improve the number of trained people working with financial institutions. (d) Although this project is not directed toward meeting the country's health needs it should have a direct effect on improving the living conditions of middle income families by giving them an opportunity to own a new home. (e) The loan, by establishing a national S&L system and with the technical and financial assistance of the Banco Nacional, will make a major contribution to stimulating the growth of home materials and home construction industries.
25. The project is not susceptible of execution as part of a regional project.
26. This project is consistent with Paraguay's development plan and AID's program. The project will make a significant contribution toward improving the living conditions of many Paraguayans.

AID 1240-2

27. FAA § 251(b)(7). *Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.*
27. This project will be a positive contribution to achieving self-sustained growth by mobilizing domestic savings and resources and by stimulating the home materials and construction industries.
28. FAA § 281(a). *Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.*
28. The objective of this loan is to mobilize the domestic savings and resources of the country so that middle income families can obtain long-term loans for housing. The loan will assist in the creation of a Paraguayan institution which will provide long-term credit for homes. The S&L associations will either be stock-owned or mutual associations. In this way, private initiative will be encouraged.
29. FAA § 281(b). *Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.*
29. This loan is a response to the recognition of the particular needs, desires and capacities of middle income families in Paraguay. This loan will assist in the mobilization of domestic savings and resources that are necessary to establish a permanent home financing institution. The result of this project will be the construction of more homes for middle income families.

30. FAA § 601(a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.
30. The purpose of this loan is to establish a national S&L system. The loan will also foster private initiative in the mobilization of savings and in the construction industry. The loan should also foster efficiency in the home construction industry and help that industry develop a greater technical capacity.
31. FAA § 619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?
31. Not applicable.
32. FAA § 251(h). Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.
32. The loan is consistent with the finding and recommendation of CIAP in its 1970 review.
33. FAA § 251(g). Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.
33. The loan is not directly related to the development of cooperatives, however, it is believed that it should provide an indirect stimulus to formation of cooperatives.

AID 1240-2

34. FAA § 209; § 251(b)(8).
Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.

34. No direct relevance, however, the loan will promote regional cooperation since the S&L officials both in the private and public sectors will have contacts with their counterpart officials from other Latin American countries.

Loan's Effect on U.S. and A.I.D Program

35. FAA § 251(b)(4); § 102.
Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.

35. Although the bulk of the loan will be used for local costs, the loan itself should not have adverse effect on the U.S. economy.

36. FAA § 601(b). *Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).*

36. U.S. private trade and investment abroad will be indirectly encouraged through the increased capacity of the home construction industry and through related programs such as the AID Housing Guaranty Investment Program.

AID 1240-2

37. FAA § 601(d). *If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?*
37. Although untying policies open procurement of these services to other countries, is anticipated that the GOP will show no discrimination against U.S. firms and their affiliates.
38. FAA § 602. *Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services finance by the loan.*
38. The bulk of the loan will be for local costs, however, AID regulations regarding U.S. small business will be complied with when applicable.
39. FAA § 620(h). *Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?*
39. Not applicable.
40. FAA § 621. *If technical assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.*
40. All technical assistance will be contracted from private individuals and firms.

AID 1240-2

41. FAA § 252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.
41. Except for the technical assistance aspects of the loan, the loan will be disbursed through an intermediate credit institution for use by either stock-owned or mutual S&L associations.

Loan's Compliance with Specific Requirements

42. FAA § 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?
42. Yes.
43. FAA § 608(a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.
43. Not applicable.
44. FAA § 604(a). Will all commodity procurement financed under the loan be from U.S. except as otherwise determined by the President?
44. Commodities, if they are necessary, purchased with loan funds, will have their source and origin in the U.S. or other countries as determined by the President.

45. FAA § 604(b). *What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?*
45. No bulk commodity purchases are planned.
46. FAA § 604(d). *If the host country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the U.S. on commodities financed by the loan?*
46. This provision will be included in the loan agreement.
47. FAA § 601(e). *If off-shore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?*
47. Not applicable to this loan.
48. FAA § 611(b); App. § 101. *If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?*
48. Not applicable to this loan.
49. FAA § 611(c). *If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?*
49. Not applicable.

AID 1240-2

50. FAA § 620(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?
50. Not applicable.
51. FAA § 612(b); § 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.
51. The GOP will contribute local currencies required for the project to the maximum extent possible. There are no U.S. owned foreign currencies available for this project.
52. App. § 104. Will any loan funds be used to pay pensions, etc., for military personnel?
52. No such payment will be made under this loan.

AID 1240-2

53. *App. § 106. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms?*
53. All contractors and the terms of their contracts will be approved by USAID.
54. *App. § 108. Will any loan funds be used to pay U.N. assessments?*
54. The loan agreement will preclude such use of loan funds.
55. *App. § 109. Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964 (Regulation 7).*
55. The loan agreement will reflect this requirement.
56. *FAA § 636(i). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?*
56. Loan funds will not be used to finance non-U.S. manufactured motor vehicles.
57. *App. § 401. Will any loan funds be used for publicity or propaganda purposes within U.S. not authorized by the Congress?*
57. Loan funds will not be used for publicity or propaganda purposes within the U.S.

AID 1240-2

58. *FAA § 620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished by U.S. exceed \$100 million?* 58. Not applicable to this loan.
59. *FAA § 612(d). Does the U.S. own excess foreign currency and, if so, what arrangements have been made for its release?* 59. There is no U.S. owned excess foreign currency available for this project.
60. *MMA § 901.b. Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.* 60. This provision will be included in the loan agreement.

TRANSLATION

April 22, 1971

BC/P.No.99

Mr. Peter M. Cody
Director, USAID/Paraguay
Asuncion, Paraguay

Dear Sir:

The purpose of this letter is to submit a formal application to the Agency for International Development for financial assistance to establish a Savings and Loan system in Paraguay.

The Government of Paraguay, through the Central Bank, has reached the conclusion that the establishment of a Savings and Loan system will be the most expeditious way to attack the lack of houses for the middle income families of Paraguay. Dr. Bernardo Benes was able to demonstrate the effectiveness of the Savings and Loan movement in our continent. Paraguay wishes to use this process to stimulate home construction and to improve the quality of life for our middle class families.

The assistance requested from A.I.D. would be used for the capitalization of the Banco Nacional de Ahorro y Préstamos para la Vivienda. This new financial organization will be created through an act of Congress. Already we have prepared a draft legislation which will be submitted shortly to the Congress.

The Banco Nacional de Ahorro y Préstamos para la Vivienda will be authorized to charter Savings and Loan associations. These associations will be either private stock companies or mutual associations. The Banco Nacional de Ahorro y Préstamos para la Vivienda will be an autonomous institution. Its activities will be supervised by the Superintendencia de Bancos of the Central Bank of Paraguay.

Since the Banco Nacional de Ahorro y Préstamos para la Vivienda will be a new institution, the Government of Paraguay will contribute to its capitalization an amount equivalent to \$500,000. The Government of Paraguay hereby requests from AID a loan on concessional rates in the amount of \$2,100,000 for this project. A hundred thousand dollars will be used for technical assistance and training. The remaining \$2,000,000 will be for the capitalization of the Banco Nacional de Ahorro y Préstamos para la Vivienda.

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ANNEX IV
Page 2 of 2

I have discussed this matter with the President of the Republic and he has overwarmingly given his support to the project. The Government of Paraguay is most anxious to establish a financial system which can produce housing for our middle income families. This project, therefore, has the strongest possible endorsement from this Government.

In summary, the Government of Paraguay has given high priority to increasing the number of privately owned homes. Although the project we are undertaking is ambitious in terms of resources required, it is rather modest when we consider the desires of the Paraguayan families to own their own homes. We hope that with the financial assistance from your organization we will be able to establish a Savings and Loan system which will contribute substantially to the economic and social development of our country.

Sincerely yours,

(signed) CESAR ROMEO ACOSTA
President, Central Bank
of Paraguay

UNCLASSIFIED

LOAN AUTHORIZATION (DRAFT)

Provided From: Alliance for Progress Funds
PARAGUAY: Savings and Loan Project

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of two loans ("Loan" or "Loans"), pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, to the Government of Paraguay ("Borrower") to be implemented by the Banco Nacional de Ahorro y Prestamos para la Vivienda ("Banco Nacional") of not to exceed two million one hundred thousand United States dollars (\$2,100,000) to assist in financing the United States dollar and local currency costs of a national savings and loan system ("Project") as follows:

Loan No. 1.

A Loan of not to exceed one hundred thousand United States dollars (\$100,000) to assist in financing the United States dollar and local currency costs of technical assistance to the Banco Nacional and the savings and loan association necessary to carry out the purposes of the Loans.

Loan No. 2.

A Loan of not to exceed two million United States dollars (\$2,000,000) to assist in financing the local currency costs of establishing and operating a national savings and loan system.

1. Interest and Terms of Repayment

Borrower shall repay the Loans to A.I.D. in United States dollars within forty (40) years from the date of the first disbursement under the Loan, including a grace period not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars on the disbursed balance of the Loan interest at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

- 2 -

2. Conditions Applicable to Loan No. 1. The Borrower and/or Banco Nacional shall contract or otherwise provide for such technical assistance as may be necessary to carry out the Project in a form and manner satisfactory to A.I.D.

3. Terms and Conditions Applicable to Loan No. 2.

(a) Prior to execution of the Loan the Borrower shall submit in form and substance satisfactory to A.I.D.:

(i) evidence of the establishment of the Banco Nacional in a form and substance and with powers and authority satisfactory to A.I.D.;

(ii) evidence of the enactment of legislation and/or the taking of such action by the Executive Branch adequate to facilitate the effective carrying out of the Project and the purposes of the Loans.

(b) Prior to any disbursement or the issuance of any Letter of Commitment under the Loan the Banco Nacional shall submit in form and substance satisfactory to A.I.D.:

(i) an operating plan setting forth the criteria, policies and procedures, satisfactory to A.I.D. governing the conduct of the Banco Nacional and the Savings and Loan Association operations;

(ii) evidence that the Banco Nacional's governing body has been appointed, and has hired management and made staffing arrangements satisfactory to A.I.D.;

(iii) evidence that Borrower has contributed at least the equivalent in local currency of \$250,000 to the capitalization of Banco Nacional;

(iv) evidence that Borrower has advanced as a contribution to the Banco Nacional an amount necessary to cover initial operating expenses for the first 12 months of operation.

(c) Unless A.I.D. otherwise agrees in writing as a condition precedent to any disbursement in excess of \$1,000,000 or within 18 months of execution of the Loan Agreement, whichever occurs sooner, Borrower of the Banco Nacional shall establish and utilize to an extent satisfactory to A.I.D. a financial mechanism in form and

- 3 -

and substance also satisfactory to A.I.D., for the purpose of raising funds for the Banco Nacional's operations and to assure a continued source of funds.

(d) Borrower shall contribute to Banco's capital within one year of execution of the Loan Agreement an additional amount equivalent in local currency to at least \$250,000.

(e) Disbursements of Loan funds shall be made on a pari passu basis with Borrower's contributions of capital to Banco.

(f) Unless A.I.D. otherwise agrees in writing, the proceeds of the Loan shall not be utilized for purposes other than home financing.

(g) Unless A.I.D. otherwise agrees in writing and except as justified by increased costs, no home shall be financed with proceeds from the Loan whose selling price exceeds the equivalent in local currency of \$10,000.

(h) Unless A.I.D. shall otherwise agree in writing, the Banco Nacional shall not make any proceeds of the Loan available to Savings and Loan Associations in excess of three times the amount of the savings and capital of such Association, nor shall the Banco Nacional make proceeds of the Loan available to any Association having less than the local currency equivalent of \$150,000 of paid-in capital.

(i) Unless A.I.D. otherwise agrees in writing, Banco Nacional and A.I.D. shall hold joint reviews and evaluations of the progress of the Project on an annual basis.

4. Other Terms and Conditions Applicable to Both Loans.

(a) Except for marine insurance and ocean shipping, goods and services financed under the Loan shall have their source and origin in Paraguay and countries included in A.I.D. Geographic Code 941. Marine insurance financed under the Loan shall have its source and origin in Paraguay or any country included in A.I.D. Geographic Code 941, provided, however,

- 4 -

that such insurance may be financed under the Loan only if it is obtained on a competitive basis and any claims thereunder are payable in convertible currencies. Ocean shipping financed under the Loan shall be procured in any country included in A.I.D. Geographic Code 941.

(b) United States dollars utilized under the Loan to finance local currency costs shall be made available pursuant to procedures satisfactory to A.I.D.

5. This Loan will be subject to such other terms and conditions as A.I.D. may deem advisable.

Deputy U.S. Coordinator

Date