

PD/KAG 559

PROJECT PAPER

FOR A

PRODUCTIVE CREDIT GUARANTY PROJECT

IN

PARAGUAY

UNDER THE

PRODUCTIVE CREDIT GUARANTY PROGRAM  
(PCGP)

February 15, 1977

UNCLASSIFIED

**RECORD COPY**

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I. PROJECT SUMMARY AND RECOMMENDATIONS

AGENCY FOR INTERNATIONAL DEVELOPMENT  <b>A. PROJECT PAPER FACESHEET</b>		1. TRANSACTION CODE <input type="checkbox"/> A ADD <input type="checkbox"/> C CHANGE <input type="checkbox"/> D DELETE	PP 2. DOCUMENT CODE 3
3. COUNTRY ENTITY PARAGUAY		4. DOCUMENT REVISION NUMBER <input type="checkbox"/>	
5. PROJECT NUMBER (7 digits) [ 526-0114 ]	6. BUREAU/OFFICE A SYMBOL LA B CODE [ 05 ]	7. PROJECT TITLE (Maximum 60 characters) [ PRODUCTIVE CREDIT GUARANTY PROJECT ]	
8. ESTIMATED FY OF PROJECT COMPLETION FY [ 7 ] [ 7 ]		9. ESTIMATED DATE OF OBLIGATION A INITIAL FY [ 7 ] [ 7 ] B QUARTER [ 2 ] C FINAL FY [ 7 ] [ 7 ] (Enter 1, 2, 3, or 4)	

10. ESTIMATED COSTS (\$000 OR EQUIVALENT \$1 - )

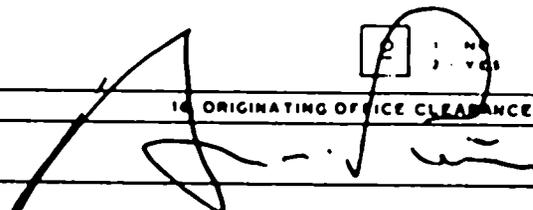
A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B FR	C L C	D TOTAL	E FR	F L C	G TOTAL
AID APPROPRIATED TOTAL						
(GRANT)						
(LOAN)						
OTHER US	1 Guaranty	1,500	1,500		1,500	1,500
	2					
MOST COUNTRY	Guaranty	750	750		750	750
OTHER DONOR(S)						
TOTALS		2,250	2,250		2,250	2,250

11. PROPOSED BUDGET APPROPRIATED FUNDS (\$000)

A APPROPRIATION	B PRIMARY PURPOSE CODE	PRIMARY TECH CODE		E 1ST FY		H 2ND FY		K 3RD FY	
		C GRANT	D LOAN	F GRANT	G LOAN	I GRANT	J LOAN	L GRANT	M LOAN
(1)	900	840							
(2)									
(3)									
(4)									
TOTALS									

A. APPROPRIATION	N 4TH FY		O 5TH FY		LIFE OF PROJECT		12 IN DEPTH EVALUATION SCHEDULED
	Q GRANT	P LOAN	R GRANT	S LOAN	T GRANT	U LOAN	
(1)							MM [ 1 ] [ 2 ] YY [ 7 ] [ 7 ]
(2)							
(3)							
(4)							
TOTALS							

13. DATA CHANGE INDICATOR WERE CHANGES MADE IN THE PID FACESHEET DATA, BLOCKS 12, 13, 14, OR 15 OR IN PRP FACESHEET DATA, BLOCK 12? IF YES, ATTACH CHANGED PID FACESHEET.

14. ORIGINATING OFFICE CLEARANCE SIGNATURE  TITLE DIRECTOR, USAID/PARAGUAY		15. DATE DOCUMENT RECEIVED IN AID W. OR FOR AID W. DOCUMENTS. DATE OF DISTRIBUTION DATE SIGNED MM [ 0 ] DD [ 2 ] YY [ 1 ] [ 4 ] MM [ 7 ] DD [ 7 ] YY [ 7 ]
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01

AGENCY FOR INTERNATIONAL DEVELOPMENT  
PROJECT IDENTIFICATION DOCUMENT FACESHEET  
TO BE COMPLETED BY ORIGINATING OFFICE

1. TRANSACTION CODE  
 C A = ADD  
C = CHANGE  
D = DELETE

PID  
2. DOCUMENT CODE  
1

3. COUNTRY/ENTITY  
PARAGUAY

4. DOCUMENT REVISION NUMBER  
1

5. PROJECT NUMBER (7 DIGITS)  
 526-0114

6. BUREAU/OFFICE  
A. SYMBOL LA B. CODE 95

7. PROJECT TITLE (MAXIMUM 40 CHARACTERS)  
 PRODUCTIVE CREDIT GUARANTY PROJECT

8. PROPOSED NEXT DOCUMENT  
A.  2 = FRP B. DATE MM YY  
3 = PP

10. ESTIMATED COSTS (\$000 OR EQUIVALENT, \$1 = )

FUNDING SOURCE	
A. AID APPROPRIATED	645580
B. OTHER U.S.	1.
	2.
C. HOST COUNTRY	
D. OTHER DONOR(S)	
TOTAL	

9. ESTIMATED FY OF AUTHORIZATION/OBLIGATION  
B. INITIAL FY   D. FINAL FY

11. PROPOSED BUDGET AID APPROPRIATED FUNDS (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE		E. FIRST FY		LIFE OF PROJECT	
		C. GRANT	D. LOAN	F. GRANT	G. LOAN	H. GRANT	I. LOAN
(1)							
(2)							
(3)							
(4)							
		TOTAL					

12. SECONDARY TECHNICAL CODES (maximum six codes of three positions ea.)

110 040

13. SPECIAL CONCERNS CODES (MAXIMUM SIX CODES OF FOUR POSITIONS EACH)

RR BL BF DEL EQTY

14. SECONDARY PURPOSE CODE  
200

15. PROJECT GOAL (MAXIMUM 240 CHARACTERS)

Increase opportunities for profitable and productive investment by incorporating into the institutionalized credit system small entrepreneurs who have not previously been able to obtain such credit.

16. PROJECT PURPOSE (MAXIMUM 480 CHARACTERS)

Develop a self-sustaining credit guaranty mechanism that will neutralize the real or imagined risk in the subprojects proposed by potentially productive individuals outside of the bonafide credit system.

17. FINANCING RESOURCE REQUIREMENTS (staff/funds)

18. ORIGINATING OFFICE CLEARANCE  
Signature: [Signature]  
Title: DIRECTOR, USAID/PARAGUAY  
Date Signed: MM DD YY 02 14 77

19. DATE DOCUMENT RECEIVED, AID/W, or FOR AID/W DOCUMENTS DATE OF DISTRIBUTION  
MM DD YY

## B. Recommendations

It is recommended that A.I.D. enter into a Project Agreement with the Banco Central del Paraguay (Central Bank) for the development and implementation of a credit guaranty project under the Productive Credit Guaranty Program that A.I.D. supports under the provisions of Section 222A of the FAA of 1974 (See Annex 1). The credit guaranty system will have a capacity to guaranty a total portfolio of loans equal to \$3.0 million equivalent; the assistance from A.I.D. will consist of a guaranty and a provision for technical assistance and staff training out of technical support funds as follows:

Guaranty	\$1,500,000
Technical Support	50,000

It is also recommended that AID/W initiate as early as possible the necessary action to obtain extension of the congressional authority expiring on December 31, 1977, to at least December 31, 1980.

## C. Description of the Project

The project purpose is to develop a self-sustaining credit guaranty mechanism which will use a guaranty fund to stimulate the credit operations of private lenders to increase economic activity in potentially productive under-privileged socio-economic sectors of Paraguay. By self-sustaining it is meant that the credit guaranty system will be capable of generating enough income to cover losses and administrative expenses within a reasonable time after implementation (See financial projections in Part III.B.). The projected output is therefore a commercially viable credit guaranty mechanism.

The proposed guaranty mechanism will facilitate the operations of private lenders with small farmers and small business operators, individually or in groups, who have insufficient collateral to obtain credit under normal circumstances. Hence, the goal to which the Project contributes is to increase opportunities for profitable and productive investment by incorporating into the credit system the above mentioned small entrepreneurs who have not previously been able to obtain such credit.

The principal inputs for the realization of the Project will be made by the Central Bank and A.I.D. The Central Bank will provide office space and equipment, professional staff, support services, budget support before the Project becomes self-sustaining, and a guaranty equal to 25 percent of each portfolio guaranteed by the system. The Central Bank will also be the Project Manager and Administrator of the Guaranty System.

A.I.D. will provide a guaranty of \$1.5 million and, out of the technical support budget for USAID/Paraguay, will provide \$50,000 for a training seminar and a full-time technician to assist in system design, implementation, and operations. AID/W will also provide technical assistance when deemed necessary by USAID and/or the Central Bank.

The Guaranty Fund will be located at the Central Bank, as the backbone of the guaranty system. With the inputs of A.I.D. and the Central Bank, the Fund will be able to offer a guaranty of 75 percent of every eligible loan made by the participating private lenders. A.I.D. and the Central Bank will cover the obligations of the Fund if its accumulated capital from revenues is not sufficient to cover them. Under this arrangement, the Fund will serve as a cushion to A.I.D. and the Central Bank. However, at the outset, before the Fund develops its strength, the risk in each lender's portfolio of loans will be shared as follows:

	<u>Percent of Risk</u>
1. Lender	25
2. A.I.D.	50
3. Central Bank	<u>25</u>
Total Risk Coverage	<u>100</u>

Operationally, the guaranty will apply automatically to those projects found eligible and feasible by the lenders and qualified participating technicians. Upon approval of this Project, the system design will be started and initial implementation will be carried out; full operation will begin on or about August 15, 1977.

#### D. Summary of Findings

The basic concept for a PCCP guaranty system has been found appropriate for Paraguay. Conversations with Central Bank officers and potential participating lenders and analyses of their institutional strengths have indicated that there are adequate physical and intellectual infrastructure and sufficient resources to achieve the project purpose and contribute toward the project goal (See Annex III). The proposed utilization of existing resources to design and operate a system that will work within the banking system, enhancing without disrupting normal credit operations, constitutes a vital condition for the acceptance of the Project and the prompt achievement of self-sufficiency (See Technical and Financial Analyses in Part III). Moreover, the probable socio-economic impact of the Project is quite significant if viewed in relation to projects that require foreign debt to stimulate credit internally. This feature and the principle of cost-effectiveness at all system levels are perhaps the principal reasons for the support of the GOP, the Central Bank, and the private sector in general (See Economic Analysis in Part III). Lastly, the satisfaction of the need for stimulation of credit for "grass roots" development is quite timely during the present economic situation and to support other GOP efforts.

## II. Project Background and Detailed Description

### A. Background

The idea of developing a credit guaranty mechanism dates back to 1972 when OPIC, then trying to implement the Community Credit Guaranty Program (CCGP),

offered a guaranty of 25 percent to the private banks in the country. The CCGP was not accepted because the guaranty level was too small. Then, in 1975, A.I.D. offered to the Central Bank the Productive Credit Guaranty Program (PCGP), the concept proposed for approval in this paper. The response of the GOP and the Central Bank was favorable, and in March, 1976, AID/W sent two finance officers from IA/DR to assess the conditions favorable to the adaptation and implementation of a PCGP system in the country. Their findings were positive, the Central Bank agreed to support the feasibility studies (See Annex IV), and in June, 1976, USAID submitted a Project Review Paper (PRP) for the consideration of the Development Assistance Executive Committee (DAEC). The PRP was approved by the DAEC on June 17, 1976, and intensive review was immediately initiated for the presentation of this Project Paper (PP) (See Annex IV). The development of the project feasibility study was relatively fast, and USAID expects equally prompt design and implementation. The work was assisted by the staff of IA/DR/DB, which had also developed full concepts for special guaranty systems in the Dominican Republic, Uruguay, and Colombia, had developed the basic PCGP concept, and had assisted missions in its adaptation in Bolivia, Chile, Colombia, Honduras, and Nicaragua. The proposed Project for Paraguay will be one of five under the program in Latin America, all of which have the same purposes and objectives.

#### B. Description

The goal to which the Project contributes is to increase opportunities for profitable and productive investment by incorporating into the institutionalized credit system small entrepreneurs who have not previously been able to obtain such credit. Typically, the alternatives of such individuals or groups are not to use credit or to use non-formal credit sources that, because of onerous conditions, impede economic gain and any capitalization for economic growth.

The intention of the legislators, reflected in the guaranty authority (Annex I), is to develop commercially viable loan guaranty mechanisms. These are expected to be institutionalized to provide continuously the necessary incentive to private credit institutions to fund subprojects proposed by socially and economically deprived individuals. These subprojects have not been "bankable" because of a high degree of uncertainty about their potential success. The purpose of the Project is therefore to develop a self-sustaining credit guaranty system that will neutralize the real or imagined risk in the subprojects proposed by potentially productive individuals, normally outside of the bonafide credit system. Economically, these men and women constitute an invaluable resource to foster socioeconomic development at "grass roots" levels of society. These people are small farmers, small business operators engaged in food production and commercialization, and small businessmen in the production, manufacture, or service industries, having a direct impact on the quality of life and economic opportunity in their communities.

The output of the Project will be a tested guaranty system with a record that could hopefully justify its strengthening as considered proper and necessary by the Government of Paraguay. In a future developmental phase its operations could be extended to the privately oriented publically owned financial institutions that are not eligible to participate under the existing legislation.

The inputs required of A.I.D. will be a guaranty of collection to the participating private lenders through the Guaranty Fund at the Central Bank and technical assistance support. The guaranty of A.I.D. will be 75 percent of each loan in default for 150 days. Payments by A.I.D. will cease when the total of all payments made, first by the Fund and then by A.I.D., reaches fifty percent of the loans outstanding, made in each year of the Project. Since the guaranty of the Fund is of 75 percent of the outstanding balance in each loan, after A.I.D. reaches its limit the Central Bank will continue to make the payments until the full 75 percent is covered. As stated above, the payments by A.I.D. and the Central Bank will only take place after the resources of the Fund are exhausted. This feature will reduce the probability of these payments.

In other words, in matters of risk coverage, A.I.D. and the Central Bank will be counter-guarantors of the obligations of the Fund. However, to protect the interests of A.I.D. and the Central Bank, assure equity, and enhance the liquidity of the Fund, the private lenders under their contract to participate in the guaranty system will be required to make best efforts to collect loans and to establish legal proceedings to recuperate delinquent guaranteed loans before the guaranties are paid by the Fund. After payment by the Fund, the lender will continue to seek payment of the delinquent loan and, in the event of recovery, will pay back to the Fund 75 percent of the amount recovered, after deducting recuperation expenses.

As to the technical assistance support, A.I.D. will pay for a four-week training seminar that will take place in Asunción or other convenient city for the professional staff assigned by the Central Bank to administer the guaranty system. The training will cover the basic technical principles of guaranty mechanisms and their design, organization, and operations. The output of the training session will be the final draft of operations handbooks, ready for final approval by the Central Bank and USAID. A.I.D. will also pay for the services of an expert in banking and risk management to assist the Central Bank for a period of 18 months in the final design, implementation, and start of operations of the guaranty system. In addition, AID/W, through the staff of LA/DR/DB, will be available to provide assistance if and when deemed necessary by USAID and/or the Central Bank.

Lastly, if after the system is in operation the Central Bank/GOP decides to terminate the Project, the capital in the Guaranty Fund at the time of the decision will be used to discharge all the outstanding obligations of the Fund. The remaining balance, if any, will be distributed among all those borrowers who obtained guaranteed loans and contributed to the capitalization of the Fund through payment of fees.

Development of the Project will entail the organization and adaptation of several existing institutions into future components or subsystems of the guaranty system. These institutions have been and will continue to operate as independent entities in their respective functions. However, for the coordination of their activities under the PCCP system, they will follow the specific guidelines established to facilitate the achievement of the Project's operational objectives. The institutions that will form the system for the PCCP in Paraguay and their functions are:

1. The Central Bank, an Administrator, will develop and implement the guaranty system with the technical assistance of A.I.D., will coordinate the activation of the other three subsystems, and will administer the Guaranty Fund. Within its capacity, the Bank will also provide liquidity for lending under the PCCP through the regular procedures of rediscount or through improved procedures as necessary to provide incentives for the desired credit expansion. It is contemplated that 60% of the guaranteed loans will be discountable at the Central Bank. There are assurances from the Central Bank that there will be sufficient resources within the banking system to sustain the credit volume forecast in the Financial Analysis section of this paper.

2. A.I.D. will provide the necessary guidance and technical assistance for the development, implementation, and operation of the system, and will counter-guaranty 50 percent of the loans guaranteed by the Fund. A.I.D. payments will take place as explained earlier.

3. Participating Credit Institutions. There are in Paraguay 62 private credit institutions operating throughout the national territory. These consist of 13 banks, 8 finance companies, and 41 cooperative credit unions. These institutions, as eventual participating lenders under the system, will screen potential borrowers and will grant credit for the implementation of eligible subprojects in accordance with the recommendations of the participating technicians discussed below, and in accordance with the Project's policies and procedures as established by the Central Bank. Lenders, however, are not under obligation to grant credit, which they may deny despite a positive recommendation from a participating technician. A lending institution is eligible to participate in the PCCP if it is a privately owned institution with a record of success acceptable to the Central Bank. The institution must request admittance to the system, agree to operate in accordance with its policies and procedures, and have the financial officer(s) attending PCCP business undergo the required training.

4. Participating Technicians. There are available for the first year of operations of the project 34 consulting firms with over 150 technicians. Their fields of expertise are in Engineering, Economics, Business Administration, Accounting, and Law. In addition to these sources of assistance, many technicians working with GOP agencies would be available to participate in the Project on a part-time basis. This is possible because the GOP encourages the availability of its professional employees for developmental activities. Working hours in government offices are in the morning, leaving the afternoon free for "part-time" employment. The Municipal Development Institute, for example, has indicated that it would be able to put together a team of some 30 technicians that could alone generate sufficient projects to meet the credit forecast for the first year. It is expected that the technical assistance system of independent consultants will grow as the Project proves to be a good source of extra income.

During the implementation phase all potential technicians will be invited to sell their services on a full or part-time basis. Their activities will include the conceptualization of subprojects and the formulation of financial proposals. The interested professionals and para-professionals will be classified in accordance with their practical experience. Those qualified

and interested in participating will be trained in the use of the Project's policy and procedural handbooks, which will be prepared to guide and maintain minimum standards of quality in the work of the technicians. The technicians' recommendations will be based on the technical, economic, and financial viability of the subproject. The cost of the technicians' services will be included as part of each subproject cost.

C. Borrower, Subproject, and Loan Eligibility

Borrower eligibility has been established for individuals or groups who:

- a) are capable of managing and devoting the necessary time to a subproject;
- b) in the case of farmers, own and work less than 20 hectares of land, and in the case of small industry, artisans, and commercial firms, have less than 20 employees or less than \$60,000 equivalent invested in fixed assets and working capital;
- c) are willing and able to contract debt and have no prior record of bankruptcy; and
- d) are unable to obtain institutional credit on reasonable terms.

Criteria (a) through (d) are meant to focus the project assistance on individuals and groups who previously had been largely excluded from institutional credit on reasonable terms, frequently because of lack of sufficient collateral. They, along with their employees, are believed to be largely included in the poorest two-thirds of the population. They generally do not understand how they can use credit, and if they do, they typically obtain it from money lenders who often also buy the commodities the borrowers produce at prices the money lenders themselves establish. Interest rates on loans from private money lenders are typically 5 percent a month. This group is also composed of people who have had little or no access to technical assistance and are generally in need of it.

Subproject eligibility has been established in accordance with the recent interpretation of the enabling legislation by GC/LA. This interpretation enhances the potential impact of the Project through broad coverage and through risk diversification.

Eligible subprojects will be:

- e) those found technically, financially, and economically feasible by participating technicians;
- f) in agriculture and agriculture-related activities or in small industry or services, if the latter will provide economic opportunity or improve the quality of life in the community; and

1/

g) located in rural areas or in market towns.

Market towns are defined as those communities other than the capital city where most of the economic activity is related to agriculture. They are generally commercial and industrial centers where, through marketing and agro-industrial activities, agricultural commodities are assembled and/or processed for transportation to the capital city or for export. In Paraguay all municipalities outside Asunción and all non-incorporated population centers can be classified as market towns. The PCCP will therefore not support any subprojects in Asunción, but will permit subprojects in all the other communities in the country.

Loans eligible for the guaranty of the Project will be those made:

h) not exceeding \$15,000 equivalent for subprojects owned by one individual person and not exceeding \$40,000 equivalent for subprojects owned by groups of individuals (though the expected averages will be considerably lower, perhaps closer to \$6,000 and \$15,000 respectively);

i) for a one-time guaranty fee that shall not exceed five percent of the subloan;

j) at terms no longer than seven years and at a legal interest rate;

k) to finance fixed and/or current assets; and

l) to refinance debt only in cases both justified technically and financially and if that debt was previously under the guaranty or was contracted in harsh terms not considered beneficial to the subproject.

The eligibility criteria conform with the return on investment necessary to secure an income that will assure improvement in the socioeconomic status of subproject sponsor(s). Subprojects with net returns of 30 percent or more are quite possible in Paraguay. Such returns will be attractive enough to motivate the use of credit.

The five percent limit to the guaranty commission is intended to prevent an inordinate burden on the subproject and to pose a challenge in the administration of the Project. If the capitalization of the Fund can be easily achieved with the initial guaranty commission, the commission can be lowered to favor the borrower but without putting in jeopardy the financial soundness and effectiveness of the guaranty system.

Changes and exceptions to the above criteria will be made by the Central Bank and A.I.D. as the Project progresses to reflect better the intent of the legislation, to assure the positive impact of the Project, or when the merits of specific subprojects require such action.

## D. Administration

To achieve the purpose of the Project, the Central Bank will create an administrative unit within its organizational structure. The unit will be staffed with a project director, a financial administrative analyst with training in finance and economics, and a secretary. The unit will function within the section in charge of the Special Development Fund, created to implement A.I.D. Loan 526-T-028. The work content of each position will be defined based on the policies and procedures established to carry out the administration of the Project. These will encompass the following activities:

### 1. Research and Planning

#### a) Periodic analyses to determine:

- i) priorities for satisfaction of credit needs;
- ii) availability of physical and human resources;
- iii) legal framework for utilization of resources;
- iv) applicability of current monetary policy and/or need for modifications; and
- v) availability, or need for creation or modification of systems to mobilize financial resources.

#### b) Periodic review of project objectives and achievements and definition of measurable criteria for:

- i) total volume of loans by lending institution;
- ii) distribution of credit through rural and urban areas;
- iii) geographic distribution of project coverage;
- iv) number and capacity of participating lending institutions;
- v) resource mobilization goals through rediscounts and other sources;
- vi) levels of capitalization of the Guaranty Fund;
- vii) number and capacity of available sources of technical assistance;
- viii) operations plan for the guaranty system;
- ix) operating budget for the guaranty system;
- x) pricing policy and guaranty commissions; and
- xi) technical assistance fees.

#### c) Studies of special systems features and recommendations to improve their effectiveness and efficiency with emphasis on:

- i) policy;
- ii) organizational structures;
- iii) methods and procedures; and
- iv) combinations of the above.

### 2. Design and Implementation

#### a) Development and updating of:

- i) ~~communications~~ and information systems;
- ii) ~~administrative~~ and financial models; and
- iii) handbooks containing operating policy and procedures approved by Central Bank and A.I.D.

b) Selection, incorporation, training, and coordination of:

- i) technical assistance entities;
- ii) financial institutions; and
- iii) support subsystems within and without the Central Bank.

3. Operations and Control

a) Maintenance of the central register of:

- i) loans granted and borrowers;
- ii) technical assistance operations;
- iii) arrearages, delinquency periods, and defaults;
- iv) doubtful recuperations;
- v) audits;
- vi) payments of guaranties and of technical assistance;
- vii) other borrowers' assets encumbered;
- viii) participating institutions; and
- ix) accounting and administrative data.

b) Execution and preparation of:

- i) payments;
- ii) collections;
- iii) inspections;
- iv) audits;
- v) corrective actions;
- vi) financial statements of the Fund; and
- vii) operations reports.

c) Monitoring of:

- i) trends in approvals and disbursements;
- ii) utilization of the resources of guarantied loans;
- iii) actual performance of subprojects per their original projections;
- iv) loan amortizations and delinquencies;
- v) management of assets received after payment of guaranties; and
- vi) lenders' operations and portfolio status reports.

4. Evaluation and Information

a) Statistical analyses of:

- i) credit volumes;

- ii) productivity of borrowers;
- iii) profitability of borrowers, lenders, technicians, and other participants in the system;
- iv) benefits to the national government;
- v) borrowers' incomes;
- vi) living standards; and
- vii) any other identifiable effect of the guaranty system.

b) Editing and dissemination of information through:

- i) publication of special studies; and
- ii) publication of the YEAR BOOK - PCCP

E. Operation of the System

The administrative unit will guide the system's operations through established means of communications: operations handbooks, training sessions, and field evaluations. The system's operations can be synthesized in three major functions:

1. Credit and Technical Assistance - The system will support credit for productive activities in agriculture, agribusiness, and small industry and commercial activities providing economic opportunity and needed services for community development. The thrust of the Project will be to stimulate productive activities. Lenders and technicians will screen potential borrowers. Identification of a potential borrower by a lender will result in a referral of the applicant to a participating independent technician paid by the Central Bank, as explained below. The technician will study the technical and financial merits of the project in accordance with eligibility criteria and will recommend for or against funding.

The technical and financial studies of a subproject will establish the minimum required capitalization. With a positive recommendation, the lender will be free to grant the credit under the guaranty, within the established portfolio limit of the lender, after verification of the eligibility of applicant and project. It must be stressed, however, that the lender is not obligated to grant the credit even with a positive recommendation from a participating technician. The loans made will be eligible for rediscount at the Central Bank at favorable loan percentages and interest rates.

Borrowers will also be entitled to follow-up technical assistance during the first year of a subproject, which may be charged to the loan. Such follow-up technical assistance may be made a condition of the loan agreement when it is deemed necessary by technicians carrying out the preinvestment analysis and/or by the commercial bank extending the loan. After the first year of operation, it is assumed that a subproject will generate sufficient cash flow to allow the firm to pay for its own technical assistance.

Both preinvestment and follow up technical assistance will be financed by the lender within the loan in cases of loan approval. In case the loan is not approved after a preinvestment survey, the cost of making the survey

will be paid by the Central Bank out of a 10% differential between the cost of the services paid to the technicians making the survey and the price charged to the subproject. The lenders' operations handbook will list all the available technicians by specialization, location, and fees. This directory will be expanded as the Project develops.

2. Guaranteed Loan Amortization and Performance Information - The granting of a guaranteed loan by any participating lender will immediately be reported to the Central Bank. The bank will open a file on each loan and will receive thereafter monthly information about delinquent payments only. In this way the Bank will have current information about the total portfolio under the guaranty and about the magnitude of the balances in arrears. This will also facilitate the monitoring of the lender's operations, the determination of loan eligibility for the guaranty, the needs for subproject and/or portfolio audits, and the lender's eligibility for payment of any guaranteed loan.

The main purpose of the information system is the proper functioning of the portfolio control mechanism. Inordinate increases of arrearages must be promptly identified to slow or suspend the lending operations of those lenders likely to show losses close to the guaranty commission (to be initially established at 5 percent). In addition to the lenders' reports, the Central Bank will also receive technicians' reports as they provide assistance to the subproject during operations. A lender's deviation from the Project's procedural guidelines in granting any loan will render the guaranty invalid and the obligation of the Fund terminated.

Under this function it has been established that the Central Bank shall submit to USAID a quarterly report with information about the operations of the Project, the financial situation of the Fund, total A.I.D. exposure under the guaranty, and lenders', borrowers', and technicians' performances as reflected in the portfolio status at the end of the quarter.

3. Guaranty Payments and Other Payments - The last important function of the system entails the actual payment of the obligations contracted by the subsystems that constitute the loan guaranty system. In order of importance, the first obligation is contracted by the Fund which agrees to pay 75 percent of the outstanding balance of a loan made by a participating lender in accordance with the guidelines given to the lender by the Central Bank. Payment by the Fund will take place after 150 days of delinquency, if the lender has initiated legal action against the delinquent borrower. In the event that the Fund's resources are not sufficient, A.I.D., however, will start its payments as explained earlier. If A.I.D. reaches the limit to its payments of 50 percent of a lender's portfolio, the Central Bank will continue to pay until 75 percent is covered.

The guaranty commission will be paid once by the borrower to the lender, who will transfer it to the Central Bank. The commission will be 5 percent of the credit and is expected to be sufficient to cover losses and administrative expenses (see financial projections in Part III below). Adequacy of the guaranty commission will be related to the competence of the staff managing the guaranty system. Specifically, they must accurately assess the risk of the lending operations, organize a reliable technical assistance subsystem, and monitor portfolio

delinquency rates to take timely corrective action and to insure prudence by the participating lenders.

Another payment in the system is the one made by the Fund to A.I.D. To comply with Section 223 of the FAA, which establishes that the guaranty issued by A.I.D. must generate some compensation, a one-time guaranty fee has been set at 0.25 percent of the credit guaranteed by the Fund, payable quarterly in local currency at the time of the quarterly report of the Central Bank to USAID.

Lastly, the participating lenders who received guaranty payments from the Fund will continue to seek payment of the defaulted loans, and in the event of recuperation, will pay back to the Fund 75 percent of the amount recovered less the cost of recuperating.

All the activities under the above four functions will be monitored by the Central Bank to assure the effectiveness and reliability of the system. Monitoring of the project by USAID will be carried out by the Capital Development Office.

#### F. Project Issues

Project success depends upon three crucial elements: (1) effective participation by lenders, (2) adequate and effective technical assistance, and (3) effective participation by the Central Bank. Though the analyses in Part III below show that the Project is essentially feasible, each of the crucial elements presents an unknown factor which may affect the Project.

1. The most likely initial participants as lenders will be the commercial banks, because of their dominance of the financial community in Paraguay and because of their already established rediscount relationship with the Central Bank. Private commercial banks will, of course, participate only if they can make a return approximately comparable to that of their other operations. USAID believes that banks in the past have not engaged in much lending to small farmers and businessmen not only because of higher perceived risk but also because of the perceived high costs of servicing such clients. The PCCP is designed to eliminate some of these costs by including a technical assistance element. Nonetheless, banks will have to streamline traditional loan approval and collection procedures if the program is to be profitable enough for them to participate. USAID has talked with representatives of commercial banks and with the head of the Bankers Association during the development of the Project. They indicate that the Project appears feasible to them from a lender's profitability point of view and that they will do whatever possible to streamline loan approval procedures (by not requiring review by a bank's board of directors or a top management loan committee) and loan collection procedures (by utilizing the state-owned National Development Bank, which has branches in many small communities, as a collection and transfer agent). Positive response at this point does not, however, assure participation, and this will not be known until the Project actually gets underway. USAID, therefore, does not consider lender participation as an issue per se, but as an unknown that cannot be determined further at this point, but which will affect the project greatly.

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2. The number of consulting firms in Paraguay and the GOP working hours and policies regarding extra jobs indicate a sufficient number of potential technicians in the country. The problem is that the vast majority of them are located in Asunción whereas none of the potential clients are. The prospect of earning a fee should be adequate incentive for the technicians to go to rural areas and market towns to develop subprojects. Nonetheless, an array of transportation constraints in the country may create disincentives which outweigh the incentives. Potential technicians have indicated to USAID that there should be no problems; but USAID feels that this is another unknown which will not be tested until the Project gets underway.

3. USAID has considerable confidence in the Central Bank as a vehicle through which development programs can and should be channeled. The Central Bank is the primary implementing entity for the Rural Enterprises Loan (526-T-028), and USAID will be presenting a PID for a FY 1979 loan which the Central Bank will also administer. The potential problem is that the Central Bank lacks any experience in development projects and administration of a guaranty mechanism. The Rural Enterprises Loan is its first effort in development projects. Also, it is an entity steeped in tradition, with very centralized decision making channels. Will the Central Bank be able to administer the PCCP effectively while also implementing the Rural Enterprises Loan and its other programs? Central Bank officials have been made aware of what will be involved in administering the PCCP and assure USAID that there will be no problem. Furthermore, training will be given the Central Bank officials who will operate the Project. USAID review of the excellent progress the Central Bank is making in fulfilling the conditions precedent for the Rural Enterprises Loan shows that it potentially is capable of carrying out both projects simultaneously and efficiently. But whether it will actually do so is an unknown.

USAID does not believe that there are any serious issues per se in this Project, but presents the above to call attention to these three indeterminable factors which may affect the Project during implementation.

### III. Project Analyses

#### A. Technical Analysis

The primary technical objective of the Project is to implement and refine the PCCP operating model. As stated, the model is intended to neutralize economically the risk inherent in the operations of the participating lenders. The need for this system arises from the lenders' belief that the appropriate interest rate for loans to individuals outside the credit system cannot be ascertained because of the uncertainty associated with the risk. In other words, the high degree of uncertainty translates into infinite risk. To illustrate,

$$\text{Cost} + \text{Risk} = \text{Price}$$

Where,

COST is the opportunity cost, the administrative cost, and the price the lender must pay for funds either to the Central Bank or to his depositors.

RISK is the probability of losing the loan. With the general tendency of the commercial banker to cover 100 percent of the risk through the requirement of collateral in operations with new borrowers, the lack of sufficient mortgageable assets on the part of the credit applicant makes the operation impossible.

PRICE is the interest rate plus commissions paid by the borrower. The interest rate cannot exceed legal limits.

Therefore, the role of the guaranty system is to minimize the "infinite" or indeterminate risk of the lender and provide, when necessary, through existing concessional rediscount rates, the incentives to lend at institutional interest rates. This is intended to allow the lender a net return equal to his opportunity cost. As to the self-sufficiency of the Guaranty Fund, it will depend on the accuracy with which the potential risk is quantified adequately to price the guaranty, and on the reliability of the technical assistance subsystem in the development and selection of profitable subprojects. For example, assuming no overhead cost, the Fund will be self-sufficient if the losses turn out to be below the accumulated income from the five percent guaranty commission planned. Examination of the past performances of the probable participating lenders indicates that they have sustained losses below one percent of their portfolios. Since the new lending will take place with different types of borrowers and projects, a guaranty commission of five percent should safely cover losses and administrative expenses.

While the risk of the lender is thus neutralized by the Fund, the management of the guaranty system should find ways to neutralize the risk assumed by the Fund. This will be achieved through several measures designed into the guaranty system. One is the requirement of preinvestment technical assistance. This will tend to homogenize the quality of the subprojects by establishing their technical, economic, and financial feasibility, and operationally reduce the eligibility criteria to simple foreseeable debt-service indexes of, say, 4 to 1 (i.e., the net cash generating capacity, before financial expenses, must be equal to four times the amount required to service the debt). Second, the preinvestment technical study of a subproject will focus on its viability as an economic unit and will assess total capital requirements. Thus a subproject will represent a fully conceptualized, self-help economic unit for which a financial proposal is formulated. This will prevent the common cursory analysis of working capital needs to "put out a fire" without full assessment of total short and long-term capital requirements. Third, "follow-up" technical assistance during the first year of a loan will assure that the borrower makes effective use of the credit. Fourth, because of the required self-help type of economic unit, strong emphasis will be on determining the individual borrower's motivation and potential as a productive new credit user within the bonafide credit system. Finally, the monitoring system will continuously provide information on portfolio management, so as to be able to identify unacceptable arrearages and stop lending operations before conditions deteriorate.

The procedure described above will assist in the development of reliable actuarial data to expand the guaranty system operations. This will

require a high degree of competence of the administrative unit which must maintain the balance of the financial equation explained in the next section.

In the long run, self-sufficiency will hopefully result in capitalization of the Fund. With this and greater availability of actuarial data, the liability incurred by the Fund could be expanded prudently. For example, with the probability of 3 percent losses established at 80 percent, \$4 million equivalent in Fund resources could safely guaranty a portfolio as high as \$12 million equivalent, because the Fund's resource level will be over ten-times the minimum amount required.

The competence and capacity to develop and operate the proposed guaranty system already exists in Paraguay. This is evident in the high quality of the private banks of the system plus the government-owned National Development Bank. Under the leadership of the Central Bank, they have managed to maintain the country practically free of domestically generated inflation in recent years. The portfolio growth of the private banks shows a relatively low yearly rate of 17.8 percent, but this reflects efforts to control the money supply to maintain it in harmony with the economy's ability to expand with minimal contribution to inflation. The 13 private banks operate through 54 agencies, 24 in Asunción and 30 in 13 other towns <sup>1/</sup> in the country. In addition to the private banks, there are 41 credit unions registered with the Superintendency of Banks and eight finance companies (financieras).

The Project requires the application of risk management principles to a loan guaranty system. This application is new in Paraguay, but the technology exists within the banking system to carry it out. In terms of cost-effectiveness, the guaranty system is expected to develop into one of the best ways economically to stimulate credit for productive activities at the lowest socioeconomic levels. A.I.D. will provide a guaranty of \$1.5 million, which will not require foreign debt, to support a portfolio of \$3.0 million equivalent. The financial projections show that A.I.D. may never have to pay any losses if the system management achieves the planned operational objectives.

The technical support of \$50,000, a further estimate of \$20,000 for AID/W monitoring, and the subsidy of the Central Bank expected to be no more than \$37,000 (to cover administrative expenses before the Fund breaks even) are relatively small expenditures compared with other projects designed to achieve comparable sub-lending at similar socioeconomic levels.

Finally, the interest of the Central Bank (Annex IV) and of the private lenders, expressed individually and through their Bankers Association, indicates that the Project is desirable from the political standpoint. The Mission has thus concluded that the Project has been conceived and planned well, and that the socio-political environment is favorable for prompt implementation (Annex III)

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<sup>1/</sup> Encarnación, Puerto Presidente Stroessner, Pilar, Luque, San Lorenzo, San Ignacio, Hernandarias, Obligado, Hohenau, Pedro Juan Caballero, Concepción, Coronel Oviedo, Villarrica.

## B. Financial Analysis

Intimately related to the eventual financial success of the Project is the ability and speed with which the project management, with adequate support from the Central Bank, gains control of the variables in the following financial equation for the Guaranty Fund.

$$\text{Losses} + \text{Administration} + \text{Capitalization} = \text{Commission} \times \text{Possible Lending} \times \text{Absorptive Capacity}$$

Where,

- Losses** = The aggregate of all the guaranty payments on defaulted loans.
- Administration** = The cost of salaries, overhead, and support services.
- Capitalization** = An operating surplus.
- Commission** = The fee paid by the borrower, established in accordance with expected rates of default and administrative costs.
- Possible Lending** = The total lending volume permitted by the available liquidity and installed capacity of the lenders.
- Absorptive Capacity** = A restrictive factor determined by the relative availability of acceptable projects generated by participating technicians.

For an estimate of the possible effect of the guaranty system and its probable financial success, a forecast is possible using available information on the private lenders' portfolio growth over the past several years. Table I shows that the private banks' portfolio of short, medium, and long-term credit grew from \$54.5 million equivalent in 1970 to \$145.9 million equivalent in 1976. The yearly average compound rate of growth is 17.8 percent. This trend is extrapolated to show that the portfolio of those lenders may grow from \$171.6 million in 1977 to over \$280.0 million equivalent by 1980. (This analysis is extremely conservative. Until less than a year ago private banks were, with rare exceptions, only able to make loans for up to one year. Secondly, the traditional activities for which banks have made loans - most notably cattle - have been depressed in the past several years. Recently, economic prospects for Paraguay appear excellent, and it is expected that the private banks - particularly now that they can freely loan for periods over one year - will expand their portfolios at a rate faster than in the past.)

TABLE 1

PRIVATE BANKS' PORTFOLIO GROWTH FROM 1970 TO 1976, FORECAST TO 1980, AND EXPECTED STIMULATION BY PCCGP  
(In Millions of Dollars 1/)

<u>Year</u>	<u>Portfolio</u>	<u>New Credit</u>	<u>PCCGP Stimulation 2/</u>	<u>PCCGP Portfolio 3/</u>
1970	54.5	-		
1971	61.6	7.1		
1972	67.2	5.6		
1973	86.1	18.9		
1974	102.3	16.2		
1975	130.4	28.1		
1976	145.9	15.5		
	(Growth 17.8%)			
1977	171.6	25.7	.2	.2
1978	202.1	30.5	.6	.8
1979	238.1	36.0	1.1	1.7
1980	280.4	42.3	1.7	2.8
		<u>134.5</u>	<u>3.6</u>	

SOURCE: Statistics were provided by Central Bank.

1/ U.S.\$ 1.00 = G. 126

2/ 1/2 Percent in 1977 to 2 Percent in 1980

3/ Average term, 24 months.

The stimulative effect on total credit of the availability of loan guaranties through the PCCGP can be estimated using as a base the expected new yearly credit granted without the system by the private lenders. The relative magnitude of the effect will depend on the aggressiveness and imagination shown by the Central Bank staff in organizing the required group of technicians for subproject generation and in implementing realistic operating plans. Based on USAID's assessment of initial availability of technicians, liquidity of the banking system, and installed capacity of the banks, stimulations of from 1/2 percent in 1977 to 2 percent in 1980 can be expected above the basic trend (see Table I), the equivalent of \$200,000 in 1977 to \$1.7 million in 1980.

Based on a survey discussed in detail below, USAID estimates that the average loan to individuals under the Project will be about \$6,000 and the average to groups (cooperatives, small corporations, and community groups) about \$15,000, for a combined average of about \$8,000 equivalent. Therefore, the PCCGP will be generating from 25 subprojects per year in 1977 to an estimated 212 subprojects in 1980. This is a quite sustainable assumption if we look at the current availability of technicians, their expected growth in the country, and

their motivation to increase their income and status through participation in the PCCP. Assuming that the average loan will be for 24 months, the total portfolio guaranteed by the Fund will be over \$2.8 million equivalent by 1980 - a mere 1.0 percent of the expected portfolio of the private banks not under the guaranty of the Fund.

The above analysis is reinforced by the results of a survey made by USAID to attempt to get an indication of demand for credit. 151 small businesspersons were interviewed in ten market towns. The towns were chosen due to accessibility and the fact that USAID knew that small businesses existed there, but within each town the interviewees were chosen at random from all small industries existing in the town. The survey represented 18 different types of small industries, ranging from handicrafts to small manufacturing plants. Of the 151 owners interviewed, 41 had some access to credit (both formal and non-formal), 10 were not interested in credit, one did not respond, and 99 (66%) had no access to credit at all but wanted it. A series of in-depth questions to determine the amount of credit needed by the latter group established an average of \$7,264. In other words, looking only at part of the universe of potentially eligible borrowers (farmers were not included), going to only ten towns out of 168, and surveying only a fraction of the small industries within those towns, USAID with minimal expense and within two weeks identified some \$720,000 of potential eligible subprojects (plus more if those having access only to non-formal credit sources are included). If anything, this indicates the above analysis is overly conservative and that the PCCP should reach its \$3 million portfolio limit considerably earlier than 1980.

Assuming only the conservative projection of portfolio growth shown in Table I is achieved, and assuming that administrative expenses and losses are held constant, the capitalization of the Fund will progress as shown in Table II. It can be seen here that although the guaranty commission may be adequate at 5 percent, there is the danger of a "run" of claims that will exhaust the Fund's resources faster than they are being generated. Therefore, to enhance the probability of adequate liquidity at any one time, the borrower will continue to pledge the assets of each subproject as security, even though the loan may also be secured under the PCCP. Moreover, to prevent lengthy legal proceedings and assure prompt recoveries of the amounts disbursed by the Fund, the borrower will waive the right to protest any legal action by the lender in the event of default and will renounce the ownership of those assets in favor of the lender, until the loan is fully amortized.

It cannot be sufficiently emphasized that the estimates in Table I and the financial projections in Table II, based on those estimates and some stated assumptions, constitute only a forecast and cannot alone be interpreted as achievable operating plans. Nevertheless, in view of the economic resources and institutional dynamism identified, the assumptions for the forecast are quite conservative, and the parameters of possible success presented in the forecast should be accepted by the project management as desirable minimal operating objectives that should be achieved, if not surpassed, through well thought out operating plans.

It has been shown that the Fund could break even before the third year of operations and that the accumulated surpluses will grow from \$11,000 to \$18,000 equivalent by the fourth year of operations. The desirable reliability of the administrative system should result in achievement of these objectives and in the development of the needed actuarial base to leverage the Fund beyond the 1 to 1 ratio of liabilities/capital. If this is achieved, A.I.D. may not have to increase or prolong its support beyond 1980 1/, and the Central Bank alone could sustain the program.

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1/ Assuming Congress extends the authority beyond December 31, 1977.

TABLE II

PRODUCTIVE CREDIT GUARANTY FUND  
ESTIMATE OF INCOME, EXPENSES, AND FINANCIAL STRENGTH 1/

1977 - 1980

(In Thousands of Dollars)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
1. Credit <u>2/</u>	<u>200</u>	<u>600</u>	<u>1,100</u>	<u>1,700</u>
<b>A. INCOME</b>				
2. Guaranty Commission (.05 x \$ 1)	10	30	55	85
3. Sale and Rediscout Commission (.005 x \$1)	1	3	6	9
4. Interest (10%)	1	3	4	7
5. Recuperations (.25 x \$12 - 1 Yr.)	-	-	2	6
6. Technical Assistance (.05 x \$1)	10	30	55	85
7. Guaranty Payments A.I.D. x Central Bank	-	-	-	-
8. Subsidy by Central Bank	<u>32</u>	<u>5</u>	<u>-</u>	<u>-</u>
<b>TOTAL</b>	<u>54</u>	<u>71</u>	<u>122</u>	<u>192</u>
<b>B. EXPENSES</b>				
9. Salaries and Fringes	29	29	29	29
10. Technical Assistance (.9 x \$6)	9	27	50	77
11. Lost " " (.1 x \$6)	1	3	5	8
12. Payments of Guaranties (.04 x \$1 - 1 Yr.)	-	8	24	44
13. Administrative Expenses	3	3	3	3
14. Guaranty fee to A.I.D. (.0025 x \$1)	<u>1</u>	<u>1</u>	<u>3</u>	<u>4</u>
<b>TOTAL</b>	<u>43</u>	<u>71</u>	<u>114</u>	<u>165</u>
<b>A - B TO THE FUND</b>	11	0	8	27
15. Fund	11	11	19	46
16. A.I.D. exposure	100	400	850	1,400
17. Central Bank Exposure	50	200	921	700
18. Portfolio	200	800	1,700	2,800

1/ See explanation of Accounts beginning next page.  
2/ From Table I.

EXPLANATION OF ITEMS ON TABLE B-2

1. Credit - Based on credit projections in Table B-1
2. Guaranty Commission - A commission of five percent is considered adequate. With the control mechanism effectively stabilizing the losses at four percent, the Fund could support a total portfolio several times its size.
3. Sale and Rediscount Commission - A commission of one half percent is estimated to cover the administrative cost of rediscounting the paper generated by the program. As with the guaranty commission, it will be refined as the Project develops.
4. Interests - Half of the year's income from commissions and the accumulated profits will yield 10 percent per year, if invested in prime paper like certificates of deposit.
5. Recuperations - One-fourth of the guaranty payments made the previous year will be recuperated by the Fund.
6. Technical Assistance - Up to five percent of the credit granted by the participating lenders will go for payment of technical assistance. The Central Bank will receive these payments and will pay the technicians as explained in numbers 10 and 11 below.
7. Guaranty Payments by A.I.D. - The payments made by A.I.D., under its obligation to pay 75 percent of each loan, in the event the Fund's resources are exhausted.
8. Subsidy by Central Bank - Before the Fund becomes self-sustaining, the Bank will pay for the salaries and fringe benefits of the personnel assigned to administer the Project as follows:

Monthly salaries and fringes:

Project Manager	\$ 1,200
Senior Analyst	900
Secretary	300
Sub Total	<u>\$ 2,400</u>

Overhead and support:

It is estimated that the Central Bank will spend 10 percent of salaries and fringes to implement, promote, and operate the system

	<u>240</u>
Total Monthly Expenses	<u>2,640</u>
Yearly Expenses	<u><u>\$ 31,680</u></u>

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9. Salaries and Fringe Benefits - The yearly expenditure and funds received are computed under No. 8, above.
10. Technical Assistance - Payments to participating technicians for the elaboration of feasibility studies and financial proposals, in accordance with the schedule negotiated with the Central Bank before the technician's incorporation in the guaranty system, plus payments to technicians for follow up assistance during the first year of projects. It is estimated that 90 percent of the revenues under No. 6 that are paid for preinvestment studies will result in subproject funding.
11. Lost Technical Assistance - Payment to the participating technicians for project studies that resulted in negative recommendations for funding. It is estimated at 10 percent of the revenues under No. 6, above.
12. Payments of Guaranties - It is estimated that each year the Fund will have to pay guaranties of the order of four percent of the credit guaranties the year before.
13. Administrative Expenses - This is the payment for the overhead and support services of the Central Bank in its administrative and promoting activities.
14. Guaranty Fee to A.I.D. - In accordance with the policy established by A.I.D. to comply with Section 223 of the FAA, the Central Bank will pay to A.I.D. quarterly in Paraguayan currency an amount equal to 0.25 percent of the total credit granted each year under the guaranty.
15. Fund - The accumulated yearly operating surplus.
16. A.I.D. Exposure - Fifty percent of the outstanding credit. The Fund will be able to support the burden of guaranty claims with expected income, but the support of A.I.D. will continue to be necessary.
17. Central Bank Exposure - Twenty-five percent of the portfolio. As with the A.I.D. guaranty, the Bank's support will be necessary for the foreseeable future.
18. Portfolio - Total portfolio under the PCCP.

### C. Social Analysis

The PCCP will provide a partial solution to the obvious problem in Paraguay of lack of adequate credit for production at the "grass roots" level. This problem acts as a constraint to income of the poor majority as well as to the Paraguayan economy, which is dominated by small producers in both the agricultural and industrial sectors. The limited assistance provided is designed to work within the existing conservative monetary policies of the GOP, to make maximum use of existing resources, and to work within the sociocultural environment.

Potential participants (the "target group") fall into two categories: small farmers owning and working less than 20 hectares of land, and persons associated with small industries having less than 20 employees or less than \$60,000 equivalent invested in fixed assets and working capital. Loans under the Project may be to individuals, to groups, or even to entire communities of the above target participants. A profile of the small farmer can best be obtained from USAID's Agricultural Subsector Assessment. He typically has only about six hectares under cultivation, limited by the labor in his household. Part of his cultivations are subsistence crops and part are cash crops. The remainder of his land is used for grazing, or for wood, fruit trees, or nut trees, and the products from these activities are generally sold. Technology is typically digging stick or oxen-power, with an advanced minority using horses. Since generally he is part of the cash economy, the farmer typically has a demand for credit and obtains some from wealthier individuals in the community who generally serve as purchasers of his crops and/or suppliers of his inputs. The success of government sponsored credit programs (National Development Bank and the Agricultural Credit Institution) and private credit programs (such as CREDICOOP) shows that there is a demand from this group for institutionalized credit. No negative cultural effects seem to occur from access to formal credit, as might in some societies when, for example, traditional money lenders cut off sources of inputs; on the contrary, CREDICOOP's analyses show the farmer better off in all ways with institutionalized credit.

There are numerous types of small industry in rural and market town Paraguay. The survey mentioned in Part III.B. questioned 18 different categories (handmade clothing, leather goods, shoemaking, carpentry, sawmilling, metal working, food processing, cotton processing, baking, tiles, upholstery, hats, clothing using machines, jewelry, musical instruments, pottery, soaps, and candy). The industries surveyed averaged 7.6 employees and/or workers, including the owner(s) and working members of their families. The average industry had \$13,200 invested in a physical structure (current value), \$3,700 in machinery, \$3,600 in vehicles, and \$2,900 in working capital, for a total of \$23,400. Those without access to credit but desirous for it were asked what they felt the principal obstacle or obstacles were to their not obtaining it. 138 responses were given, broken down as follows:

- 41 - No source for longer term credit has been available
- 33 - Lack of adequate collateral
- 26 - Ignorance/fear about use of credit
- 15 - Interest rates on available credit too high
- 13 - Process for obtaining loans too complicated/slow
- 6 - Loans being given too small
- 4 - Don't believe would qualify for bank credit

The PCCP is expected to have substantial benefit to the target group. As discussed further in Part III.D. below, some 1,800 new jobs are expected to be created, and substantial new revenues to the borrowers will be generated. This will create direct benefits to at least 2,500 persons, and to at least 12,500 if their families are included. In addition, a spread effect is expected

to occur. As the Project proves successful, additional lenders are expected to enter the market, providing credit to yet other small farmers, industries, and community groups.

For certain historical, cultural, and economic reasons, women make up well over 50% of the population of market towns; and a number of types of small industry traditionally are owned by women and/or employ mainly women. Also there is a substantial but unknown number of women who head farm families. The Project will encourage lending to the industries owned by women and will insist that the lenders not discriminate against any borrower due to sex. Women will also be able to participate on an equal basis with men in the management of the Project and as technicians.

Finally, benefits will accrue to the technicians under the Project. It will enable them to increase their incomes, obtain additional experience, and broaden their perspectives. Unlike in some countries, there are no urban/rural barriers that might hinder interaction between the borrowers and the technicians/lenders. Over 90% of the urban population speaks and is willing to speak Guarani, and the origins of a good proportion of the urban population, including the professional classes, are from the market towns and rural areas of Paraguay.

#### D. Economic Analysis

The country's National Plan for Economic and Social Development, 1977-1981, visualizes that industry will play a new and dynamic role in the development process and that the country is entering a new transitional phase to a higher stage of industrialization. The Plan projects a 9.7% annual increase in industry's contribution to real GDP during the period compared to an average annual projected increase of real GDP of 7.6%. This compares with annual increases during the period 1970-1975 of 5.3% for industry and 6.1% for GDP. Already in 1976 real industrial growth is estimated to have amounted to 14.1% compared to 7.1% for real GDP. The expansion is being and will continue to be strongly supported by the expansion of exports (including sales to the Itaipu power complex), by a strong foreign exchange position, by stable prices, and by the rapid growth of domestic savings. What is needed to assure realization of this growth projection is an adequate supply response to the expansion of aggregate demand. It is here that financial and technical assistance is sorely needed for small industries and artesans (those containing less than 20 employees) and small farmers (those with less than 20 hectares of land) who comprise two-thirds or more of the active labor force in these sectors. The Plan makes explicit that it does not contemplate the installation of large new industries characterized by complex technology during the period.

Paraguay has no program and never has had a significant program providing financial and technical assistance to small scale firms and artesans. USAID efforts to provide technical assistance to small farmers is in the process of formulation. Consequently, the introduction of a Productive Credit Guarantee Program in 1977 is not only timely as a means of supporting the Government's industrial development strategy, but is also an effective means of at least

partially filling a significant gap in the country's past development efforts. In doing so there can be little doubt that the poor majority of the active labor force will benefit significantly. 1/

If current social and political conditions remain favorable and the management of the Project achieves promptly the necessary competence, the probability of achieving the results envisioned in the forecasts presented in previous sections is high, resulting in a number of economic benefits. Sufficient resources have been identified to assure the success of the Project. These resources are represented in the physical capacity of the private banks throughout the country, the banking system liquidity to fund subprojects under the guaranty, technical personnel to generate subprojects for funding and to help initiate them, and potentially productive small borrowers who could profitably use credit to improve their socioeconomic conditions.

It is felt that the Project will not be successful if tangible benefits are not made possible to all the above participants. Most important, if through the concerted efforts of bankers, technicians, and the Central Bank, the financial benefits to the Fund are not sufficient to cover costs, the Project will not meet the statutory requirement of self-sufficiency. Therefore, the key to the success of the Project will be the competence of the human resources dedicated to manage the guaranty system at the Central Bank and to provide technical assistance to borrowers. Through the technical assistance provided by A.I.D., the administrative unit is expected to develop promptly the capability to make possible the expected economic benefits.

These benefits can be measured in terms of revenues to the Fund (which will strengthen the guaranty system), employment through the subprojects funded, interest income to the lenders, operating revenues to the subproject sponsors and to the participating technicians, and new tax revenues to local and national governments. These benefits will have a direct impact on the quality of life at the community level and will add dynamism to the process of integrating into the economy previously neglected productive sectors that represent a majority of the active labor force (largely the poor majority) in agriculture, industry, and commerce. Thus, the Project clearly qualifies under the criteria of A.I.D.'s Congressional Mandate.

Based on the forecast of operating results, the guaranty system is expected to stimulate new lending of some \$3.6 million equivalent from 1977 to 1980. Without going beyond the direct beneficiaries of the Project, the participating lenders will gross \$220,000 equivalent taking into consideration an average spread of 6 percent between their cost of money and their interest rate, and estimating an average term of two years. The spread will result from

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1/ Agustín Oscar Flecha estimates that in 1973 42.5% of the population were poor with an average income per person of \$258 and 29.5% were very poor with an average income of \$49. "Distribución de Ingreso y Subdesarrollo," I.D.I.A. Asunción, 1975 pp.30, 63.

a rediscount interest rate of 5 percent of 60 percent of the loan and 13 percent interest to the borrower. The maximum cost of the bank's own resources, the 40 percent not rediscountable, is 10 percent if obtained through certificates of deposit. This can be lowered by deposits in current account where the bank does not pay any interest. These earnings will be possible without an increase of the lenders' installed capacity, which will also have a direct impact on their profitability.

The above new lending for subprojects under the PCCP will generate directly some 1,800 new jobs and will generate gross profits to the borrowers of \$1.1 million equivalent per year by the fourth year, estimating \$2,000 equivalent to create a new job and an average of 30 percent return on investment. From the standpoint of the borrower, the PCCP will give him the opportunity to use institutional credit for the first time. This will be enjoyed by new borrowers who never used credit and by those who have been using credit obtained at usurious interest rates from money lenders outside of the bonafide credit system. While the benefits to the former will solely be in terms of the profitability of the subprojects, the latter will also benefit from greater availability of credit for fixed and current assets and from the savings possible as they move from the money lender to the banking system. With some 450 productive economic units being created or expanded, there will therefore be a series of future indirect benefits to the macroeconomy which together with direct benefits will contribute to raising municipal and national tax revenues.

One of the important indirect benefits is the encouragement of savings through bank deposits of small farmers and businessmen who have not previously had bank accounts but will be encouraged to do so after receiving a loan for the first time from a commercial bank. During discussions with USAID, commercial bankers were quick to recognize this as an important potential benefit to them, while the Central Bank officials considered this to be significant from the viewpoint of encouraging domestic savings. Another important indirect benefit will be to increase the number of able entrepreneurs and managers as small scale firms gradually grow into medium scale enterprises with the assistance of PCCP. The direct increase in real income resulting from the program may also be expected to have a multiplicative effect on aggregate income that is 2 to 3 times the initial increase. 1/

One other economic benefit is that after the self-sustaining capability of the guaranty system is established, it can be viewed as a generator of excellent investment opportunities for those individuals seeking alternatives to the savings account. It is a known fact that the limited success of the concepts of underwriting stock issues and investment banking in countries where these concepts are least known is caused by the reluctance of investors to acquire paper when the profit is guaranteed only by the often dubious potential success of the management of the enterprise funded. Therefore, for those seeking safe and profitable investment opportunities, PCCP paper will be attractive because it will be 75 percent guaranteed by the Fund and 25 percent by the seller. An

1/ For calculation of the multiplier, see Agustín Oscar Flecha. Op. cit., p.68.

example of the need for this type of investment alternative can be seen in the unexpected success of the Savings and Loan System created for housing, which has captured savings many times beyond the most optimistic estimates.

Lastly, development of the anticipated number of subprojects will result in approximately \$180,000 in revenues to the technicians providing pre-investment and follow-on technical assistance. It is difficult to quantify all the economic benefits from the Project, such as indirect employment created, new taxes to the local and national government (from credit users, lenders, and technicians), and strengthening of the communities of the beneficiaries. However, given the modest magnitude of the inputs from A.I.D. and the Central Bank, the Project appears highly desirable from an economic viewpoint.

#### IV. Implementation Arrangements

The implementation arrangements have been made in accordance with the existing strength and capabilities of the proposed subsystems. The incorporation of eligible lenders and technicians is expected to be lengthy but relatively easy. The most difficult task, because of the thoroughness required, will likely be the training of the administrative staff and organization of the administrative unit at the Central Bank.

##### A. Administrative Arrangements

1. Conduit - The Central Bank as Administrator of the guaranty system will be the administrator of the A.I.D. guaranty that shall flow through the Guaranty Fund to the participating lenders. The technical strength of the Bank and its authority in monetary matters make it the most feasible institution in the country to implement and operate the Project. The administrative unit will be staffed, in accordance with the perceived needs of the Project, by two full-time professionals and a secretary. As discussed earlier, they will receive from A.I.D. the necessary training and assistance to carry out effectively the development, implementation, and operation of the guaranty system. Development of operating handbooks will be an essential part of the training.

2. Lenders - All eligible lenders will be invited to participate. Those interested will receive training on how to operate in accordance with Project policies and procedures, and portfolio quotas will be assigned in accordance with their relative strength before they are authorized to start lending operations under the system.

3. Technicians - All qualified technicians available in Paraguay will be invited to participate. Fees will be negotiated with those interested on the basis of reasonable rates plus direct and indirect expenses. Training sessions will also be held to familiarize them with the contents of the operating handbooks before they are authorized to start operations under the system.

4. A.I.D. - USAID will have the capacity to monitor the Project after participating in the early design and implementation of the guaranty

system. The officer assigned to maintain contact with the Central Bank will receive a thorough briefing on project objectives, operating policies and procedures, and desirable results.

**B. Implementation Timetable**

The following calendar of events applies to the implementation of the project. It has been established by USAID with the cooperation of the Central Bank.

	<u>Date</u>
1. Approval by DAEC	Feb. 25
2. Guaranty Authorization	Mar. 11
3. Negotiation of Project Agreement	Apr. 15
4. Signature of Project Agreement	Apr. 30
5. Technical Advisor on board	May 15
6. Training of Central Bank staff and completion of Operating Handbooks	June 30
7. System promotion with lenders and technicians	July 15
8. Analysis and classification of lenders	July 20
9. Analysis and classification of technicians	July 20
10. Training of lenders and technicians	August 10
11. Start of operations	August 15

**C. Evaluation Plan**

The flow of information from the Central Bank to USAID will permit a quarterly review of the Project's operations. The review will cover statistics on borrowers, subprojects, geographic coverage, economic activities supported, technical assistance services, credit volumes, loan amounts, lenders' activities, portfolio status, delinquencies, financial condition of the Fund, and other information. This information will not only facilitate A.I.D.'s monitoring of operations but will permit a quarterly assessment of progress toward achieving the purpose and contributing toward the goal of the Project. A formal evaluation of progress toward these objectives will be held annually, as a result of which the Central Bank will publish an annual PCGP report.

Section 222A - Agricultural and Productive Credit and Self-Help  
Community Development Programs

- (a) It is the sense of the Congress that in order to stimulate the participation of the private sector in the economic development of less-developed countries in Latin America, the authority conferred by this section should be used to establish pilot programs in not more than five Latin American countries to encourage private banks, credit institutions, similar private lending organizations, cooperatives, and private nonprofit development organizations to make loans on reasonable terms to organized groups and individuals residing in a community for the purpose of enabling such groups and individuals to carry out agricultural credit and self-help community development projects for which they are unable to obtain financial assistance on reasonable terms. Agricultural credit and assistance for self-help community development projects should include, but not be limited to, material and such projects as wells, pumps, farm machinery, improved seed, fertilizer, pesticides, vocational training, food industry development, nutrition projects, improved breeding stock for farm animals, sanitation facilities, and looms and other handicraft aids.
- (b) To carry out the purposes of Subsection (a), the agency primarily responsible for administering Part I is authorized to issue guaranties, on such terms and conditions as it shall determine, to private lending institutions, cooperatives, and private nonprofit development organizations in not more than five Latin American countries assuring against loss of not to exceed 50 percent of the portfolio of such loans made by any lender to organized groups or individuals residing in a community to enable such groups or individuals carry out agricultural credit and self-help community development projects for which they are unable to obtain financial assistance on reasonable terms. In no event shall the liability of the United States exceed 75 percent of any one loan.
- (c) The total face amount of guaranties issued under this section outstanding at any one time shall not exceed \$15,000,000. Not more than ten percent of such sum shall be provided for any one institution, cooperative, or organization.
- (d) The Inter-American Foundation shall be consulted in developing criteria for making loans eligible for guaranty coverage in Latin America under this section.
- (e) Not to exceed \$3,000,000 of the guaranty reserve established under Section 223(b) shall be available to make such payment as may be necessary to discharge liabilities under guaranties issued under this section or any guaranties previously issued under Section 240 of this Act.
- (f) Funds held by the Overseas Private Investment Corporation pursuant to Section 256 may be available for meeting necessary administrative and operating expenses for carrying out the provisions of this section through June 30, 1976.

(g) The Overseas Private Investment Corporation shall, upon enactment of this subsection, transfer to the agency primarily responsible for administering Part I all obligations, assets and related rights and responsibilities arising out of, or related to, the predecessor program provided for in Section 240 of this Act.

(h) The authority of this section shall continue until December 31, 1977.

(i) Notwithstanding the limitations in Subsection (c) of this section, foreign currencies owned by the United States and determined by the Secretary of the Treasury to be excess to the needs of the United States may be utilized to carry out the purposes of this section, including the discharge of liabilities under this subsection. The authority conferred by this subsection shall be in addition to authority conferred by any other provision of law to implement guaranty programs utilizing excess local currency.

(j) The President shall, on or before January 15, 1976, make a detailed report to the Congress on the results of the program established under this section, together with such recommendations as he may deem appropriate.

#### Section 223 - General Provisions

(a) A fee shall be charged for each guaranty issued under Section 221, 222, or 222A in an amount to be determined by the President. In the event the fee to be charged for such type guaranty is reduced, fees to be paid under existing contracts for the same type of guaranty may be similarly reduced.

GUARANTY AUTHORIZATION

Provided From: FAA Section 222A

Paraguay: Productive Credit Guaranty Program

Pursuant to the authority vested in me as Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended ("the Act"), and the delegations of authority issued thereunder, I hereby authorize the issuance of a guaranty to eligible private lenders in the Republic of Paraguay ("eligible lenders") pursuant to Section 222A of the Act in a furtherance of the Alliance for Progress for an aggregate amount not to exceed one million five hundred thousand United States dollars (\$1,500,000) ("guaranty"). The Banco Central del Paraguay ("Administrator") shall establish a Productive Credit Guaranty Fund ("Fund") pursuant to the Productive Credit Guaranty Program ("PCGP") for the purpose of repaying eligible loans ("loans") made by any eligible lender on which a default has occurred. The guaranty shall be subject to the following terms and conditions:

I. Period of Eligibility

The guaranty provided herein shall be applicable to loans made by any eligible lender subsequent to the date on which the Agency for International Development ("A.I.D.") notifies the Administrator that all applicable conditions precedent have been satisfied with respect to the Fund ("Commencement date"), but shall not be applicable to loans made after December 31, 1977.

II. Amount of Guaranty

Upon a showing by the Administrator that the resources of the Fund have been totally depleted, A.I.D. shall pay to each eligible lender pursuant to the guaranty, an amount equal to seventy-five percent (75%) of the outstanding principal balance of each loan on which a default has occurred; provided, however, that in no event shall A.I.D. pay to any eligible lender an amount which represents more than fifty percent (50%) of the outstanding balance of principal of loans made by the lenders in any discrete calendar year; provided further, that the aggregate A.I.D. liability under this guaranty shall in no event exceed one million five hundred thousand United States dollars (\$1,500,000).

III. Commission and Fees

Each borrower shall pay to the eligible lender a guaranty commission in an amount that shall not exceed five percent (5%) of the amount of each loan made by such eligible lender under the PCGP ("guaranty commission"), which guaranty commission shall be paid immediately into the Fund by such eligible lender. The Administrator shall pay to A.I.D. in Paraguayan currency on a quarterly basis a guaranty fee in an amount equal to .25 percent (1/4%) of the amount of each loan guaranteed during such period ("guaranty fee").

IV. Conditions Precedent

A. Prior to the issuance of the first guaranty under the FCGP, the Administrator shall submit to A.I.D. in form and substance satisfactory to A.I.D.:

- (1) a time-phased implementation plan for the FCGP;
- (2) a roster of the Administrator's personnel responsible for the implementation of the FCGP;
- (3) a standard guaranty agreement form to be executed by and between the Administrator and each eligible lender;
- (4) an agreement between the Administrator and the entities which shall provide technical assistance pursuant to the FCGP;
- (5) a sample of the FCGP operating handbooks which shall be distributed to each eligible lender and to each eligible participating technician; and
- (6) evidence that programs for training personnel of the Administrator and of eligible lenders, and for training eligible technicians have been established.

B. Prior to the commencement date for each eligible lender, the Administrator shall submit to A.I.D., in form and substance satisfactory to A.I.D.:

- (1) a copy of the guaranty agreement between the Administrator and such eligible lender; and
- (2) evidence that such eligible lender has completed the required training pursuant to the FCGP.

V. Covenants

The Administrator shall covenant and agree to:

A. pay to the eligible lender an amount equal to seventy-five percent (75%) of the outstanding principal balance of each defaulted loan less the aggregate amounts paid to such eligible lender by the Fund or by A.I.D. pursuant to the guaranty;

B. pay the administrative expenses of the guaranty system until such time as A.I.D. may determine that FCGP is self-sufficient;

C. negotiate agreements with the lenders for the purpose of re-discounting loans made by such lenders under the FCGP; and

D. obtain A.I.D. approval prior to effecting any change in plans, procedures, policies, and handbooks previously approved by the Administrator and A.I.D.

VI. Other Conditions

This guaranty shall be subject to such other terms and conditions as A.I.D. and the Administrator deem advisable.

CERTIFICATION PURSUANT TO SECTION 611 (c) OF THE  
FOREIGN ASSISTANCE ACT

I, Abe M. Peña, the principal officer of the Agency for International Development in Paraguay, having taken into account among other factors the maintenance and utilization of projects in Paraguay previously financed or assisted by the United States, do hereby certify that in my judgment Paraguay has the technical capability and physical and human resources to develop and maintain the administrative system required to utilize the proposed \$1,500,000 of loan guaranty authority under the Productive Credit Guaranty Program, Section 222A, FAA of 1974.



\_\_\_\_\_  
Abe M. Peña  
USAID Mission Director

February 14, 1977

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BANCO CENTRAL DEL PARAGUAY

ANEX IV  
EXHIBIT A

BC/P.Nº 32.-

Asunción, 3/ de enero de 1977

Señor  
Abe M. Peña  
Director de la  
MISION ECONOMICA DE LOS EE.UU.  
DE AMERICA EN EL PARAGUAY  
a/c. Embajada Americana  
Ciudad

De nuestra consideración,

Tenemos el agrado de dirigirnos a Ud., para referirnos a los adelantos que, conjuntamente esa Misión de USAID y el Banco Central del Paraguay, vienen realizando desde el mes de marzo del año pasado, en relación a la ejecución del Programa de Garantías de Producción, para el financiamiento de pequeñas actividades productivas, cuyos empresarios, no tienen acceso normal a los créditos en los bancos del país, por razón de carencia de garantía.

Consideramos que, una mayor activación de los pequeños empresarios por medio de ayudas crediticias en base a proyectos basados en criterios definidos, y debidamente canalizadas hacia las actividades agrícola, artesanal e industrial pueden influir favorablemente en el desarrollo económico y social del país.



Por otro lado, la banca privada, al reducir sus exigencias de garantía al prestatario, por estar asegurada por AID y el Banco Central del Paraguay, iniciará su participación efectiva en el programa de desarrollo del país, con la concesión de créditos de bajo costo y a mediano plazo y con la consiguiente venta a para la banca privada de poder atraer nuevos clientes en el futuro.

Por la presente solicitamos a esa Misión la formulación final del proyecto, para luego pasar a las etapas de implantación y ejecución del Programa de Garantías de Crédito de Producción, que esa Misión ofreciera al Banco Central del Paraguay. Entendemos que durante la negociación del respectivo Convenio, se delinearán los términos de participación del Banco Central; asimismo, que durante su implantación se definirán las características operativas del sistema.

Deseamos adelantar que, de ser favorable la determinación de USAID sobre el presente programa, el Banco Central está dispuesto a apoyar administrativamente el funcionamiento del sistema, mientras alcance el punto de equilibrio.

Asimismo, el Banco podrá asumir una obligación contingente igual al 25% de la cartera garantizada por el Fondo, para cubrir las obligaciones emergentes del mismo, en el caso de que el Fondo carezca aún de liquidez y AID haya ayudado a cubrir el 50% de las obligaciones del Fondo.

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*Recibido  
21/1/77  
2.8*

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BC/P.N.º 32.-

Por otro lado, el Banco Central del Paraguay estaría dispuesto, en base a una tasa del 5% anual y una eventual comisión de garantía, a cubrir con líneas de redescuento hasta el 60% de cada crédito para estimular la participación de la banca privada, cuando ella sea necesaria.

También, el Banco Central está dispuesto a establecer la unidad administrativa del Programa, dentro de su propia estructura orgánica.

Para la ejecución del Programa esperamos contar con la coordinación y cooperación de otros organismos nacionales vinculados con los respectivos sectores promovidos.

Finalmente, estamos en la convicción de que, con la aplicación de un sistema de créditos garantizado, canalizado hacia los pequeños empresarios dedicados a actividades económicas mencionadas, que habitualmente son cubiertas con créditos costosos y a corto plazo, lograremos acompañar el esfuerzo del Gobierno en alentar paralelamente sectores insuficientemente asistidos por la banca privada - del país.

Con tal motivo, hacemos propicia la ocasión para saludarle con nuestra consideración más distinguida.

  
AUGUSTO COLMÁN VILLAMAYOR  
Gerente



  
CESAR ROMEO ACOSTA  
Presidente



BANCO CENTRAL DEL PARAGUAY

ANEX IV  
EXHIBIT B

BC/P.Nº 70.

Asunción, 17 de marzo de 1976

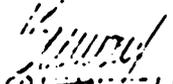
Señor  
Oliver L. Sause  
Director  
MISION ECONOMICA DE LOS EE.UU. EN EL PARAGUAY  
a/c Embajada Americana  
Ciudad

De nuestra consideración,

Tenemos el agrado de dirigirnos a Ud. con el objeto de referirnos al Programa de Garantías de Créditos de Producción que esa Misión a su digno cargo ofrece al Gobierno Paraguayo por conducto de este Banco, y a las conversaciones que sobre el particular se han llevado a cabo a nivel técnico.

Desearios expresar en principio el interés que tiene el Banco Central del Paraguay en estudiar con los técnicos de la Misión Económica la viabilidad de dicho Programa en el Paraguay, con miras a su implantación, una vez definidos los términos de nuestras participaciones y las características del sistema operativo. Para el citado estudio esta Institución designa al DR. JULIO SAMBRITA a los efectos de coordinar dicho trabajo.

Sin otro particular, aprovechamos la oportunidad para saludarle con nuestra consideración más distinguida.

  
AUGUSTO C. VILLAMAYOR  
y Gerente



  
JULIO SAMBRITA  
Presidente

lsp.

PROJECT CHECKLIST  
for  
PRODUCTIVE CREDIT GUARANTY PROJECT

1. Section 222A(a): Will the Project encourage private banks, credit institutions, similar private lending organizations, cooperatives or private nonprofit development organizations to make loans for agricultural credit and self-help community development projects?

Yes. The Project is specifically designed to achieve this objective. See statements of goal and purpose for the Project.

2. Section 222A(a): Will the Project loans be made on reasonable terms to organized groups or individuals residing in a community to enable them to carry out agricultural credit and self-help community development projects for which they are unable to obtain financial assistance on reasonable terms?

Yes. Project loans will be made only to such individuals and groups, and only for their agricultural and self-help community development projects for which they are unable to obtain credit on reasonable terms. Loan terms will be those prevailing in the financial market for all traditional credit customers of the participating financial institutions, plus a charge for the loan guaranty.

3. Section 222A(a): Will the agricultural credit and self-help community development projects include such projects as wells, pumps, farm machinery, improved seed, fertilizer, pesticides, vocational training, food industry development, nutrition projects, improved breeding stock for farm animals, sanitation facilities and looms and other handicraft aids?

Yes. All such projects will be eligible for credit under this program.

4. Section 222A(c): Will the total face amount of guaranties, including the one for this Project, exceed \$15,000,000?

No. If this Project is approved at the level of guaranty requested (\$1.5 million), a total face amount of \$13.5 million in guaranties will have been approved. (The others are Honduras - \$3.0 million, Colombia - \$6.0 million, and Nicaragua - \$3.0 million.)

5. Section 222A(b): Will the total number of Latin American countries receiving guaranties under Section 222A, including the one for this project, exceed five?

No. With approval of this Project, four countries will have received this guaranty program.

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6. Section 222A(b): Will the guaranty assure against the loss of more than 50 percent of the portfolio of eligible loans made by any lender?

No. The guaranty agreement shall so state.

7. Section 222A(b): Will the liability of the United States exceed 75 percent of any one loan?

No. The guaranty agreement shall so state.

8. Section 222A(c): Will more than \$1,500,000 in face amount of guaranties be provided for any one institution, cooperative or organization?

No. The total amount requested is only \$1,500,000.

9. Section 222A(d): Has the Inter-American Foundation been consulted in developing criteria for making loans eligible for guaranty coverage?

Yes. The official guidelines for borrower and project eligibility established by AID/W for Section 222A programs were developed in consultation with the Inter-American Foundation. Those guidelines will be incorporated into the official operating manual for this program.

10. Section 222A(b): Do the participating institutions understand that A.I.D. cannot issue any guaranties after December 31, 1977?

Discussions on this topic have been carried on with the Paraguayan Central Bank, the co-guarantor and in-country administrator for the Project. After the guaranty agreement is signed, eligible participating institutions will be incorporated into the program and informed of this fact as well as all other operating regulations.

11. Section 223(a): Will a fee be charged for each guaranty issued under Section 222A in an amount to be determined by the President?

Yes. A guaranty fee of 0.0025 (one-fourth of one percent) for each loan has been established by AID/W for all programs approved under Section 222A. This fee will be paid to A.I.D. for the guaranty.

12. Section 223(h): Will appropriate steps be taken to assure that no payment will be made under the guaranty for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible?

Yes. The guaranty agreement will so state.

ANNEX VI  
PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

Life of Project: \_\_\_\_\_ extended)  
From FY 1977 \_\_\_\_\_, FY 1977 (1980 1st/  
Total U.S. Funding Guaranty of \$1,500,000  
Date Prepared: February 10, 1977

Project Title & Number: PRODUCTIVE CREDIT GUARANTY PROJECT 506-0114

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS															
<p>Program or Sector Goal: The broader objective to which this project contributes: (A-1)</p> <p>Increase opportunities for profitable and productive investment by incorporating into the institutionalized credit system small entrepreneurs who have not previously been able to obtain such credit.</p>	<p>Measures of Goal Achievement: (A-2)</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td></td> <td style="text-align: center;"><u>1977</u></td> <td style="text-align: center;"><u>1978</u></td> <td style="text-align: center;"><u>1979</u></td> <td style="text-align: center;"><u>1980</u></td> </tr> <tr> <td>Credit Approved (\$000)</td> <td style="text-align: center;">200</td> <td style="text-align: center;">600</td> <td style="text-align: center;">1,000</td> <td style="text-align: center;">1,700</td> </tr> <tr> <td>Borrowers introduced to credit system</td> <td style="text-align: center;">25</td> <td style="text-align: center;">75</td> <td style="text-align: center;">125</td> <td style="text-align: center;">213</td> </tr> </table> <p>(\$8,000 av. proj. size)</p>		<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	Credit Approved (\$000)	200	600	1,000	1,700	Borrowers introduced to credit system	25	75	125	213	<p>(A-3)</p> <p>ICGP Annual Report, based on Central Bank records. A system will be established in which the Central Bank will receive information on every loan made.</p>	<p>Assumptions for achieving goal targets: (A-4)</p> <p>Effective demand for credit among target group can be generated using this Project's unique method of providing and controlling technical assistance for subproject investment analysis and implementation.</p>
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>														
Credit Approved (\$000)	200	600	1,000	1,700														
Borrowers introduced to credit system	25	75	125	213														
<p>Project Purpose: (B-1)</p> <p>Develop a self-sustaining credit guaranty mechanism that will neutralize the real or imagined risk in the subprojects proposed by potentially productive individuals outside of the bonafide credit system.</p>	<p>Conditions that will indicate purpose has been achieved: End-of-Project status. (B-2)</p> <ol style="list-style-type: none"> <li>1. Net capital in Fund from guaranty fees exceeds claims on Fund from defaults and operating expenses.</li> <li>2. GOP adopts system and continues it beyond life of Project.</li> </ol>	<p>(B-3)</p> <p>Central Bank records.</p>	<p>Assumptions for achieving purpose: (B-4)</p> <p>Loan default rates will not exceed expected levels of 4 percent of portfolio.</p>															
<p>Project Outputs: (C-1)</p> <p>A viable, self-supporting Credit Guaranty Fund.</p>	<p>Magnitude of Outputs: (C-2)</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td></td> <td style="text-align: center;"><u>1977</u></td> <td style="text-align: center;"><u>1978</u></td> <td style="text-align: center;"><u>1979</u></td> <td style="text-align: center;"><u>1980</u></td> </tr> <tr> <td>Net Capitalization of Fund (\$000)</td> <td style="text-align: center;">11</td> <td style="text-align: center;">11</td> <td style="text-align: center;">19</td> <td style="text-align: center;">46</td> </tr> </table>		<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	Net Capitalization of Fund (\$000)	11	11	19	46	<p>(C-3)</p> <p>Central Bank records.</p>	<p>Assumptions for achieving outputs: (C-4)</p> <p>There will be adequate support for Project from Central Bank and private lenders.</p>					
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>														
Net Capitalization of Fund (\$000)	11	11	19	46														
<p>Project Inputs: (D-1)</p> <ol style="list-style-type: none"> <li>1. <u>A.I.D.</u> <ol style="list-style-type: none"> <li>a. A guaranty of not to exceed \$1.5 million.</li> <li>b. Technical support of \$50,000.</li> </ol> </li> <li>2. <u>Central Bank</u> <ol style="list-style-type: none"> <li>a. A guaranty of not to exceed \$750,000.</li> <li>b. \$37,000 budget support for Guaranty Fund.</li> </ol> </li> </ol>	<p>Implementation Target (Type and Quantity) (D-2)</p> <ol style="list-style-type: none"> <li>1. A.I.D. technical support will fund a 4-week training program for Central Bank staff plus an advisor to Central Bank for 18 months.</li> <li>2. Central Bank support will pay for staff and other expenses of Fund for first year until it is self-supporting.</li> </ol>	<p>(D-3)</p> <p>A.I.D. records.</p> <p>Central Bank records.</p>	<p>Assumptions for providing inputs: (D-4)</p> <p>Section 222A authority is extended by U.S. Congress.</p>															

ENVIRONMENTAL ASSESSMENT

Project Location: Paraguay

Project Title: Productive Credit Guaranty Program

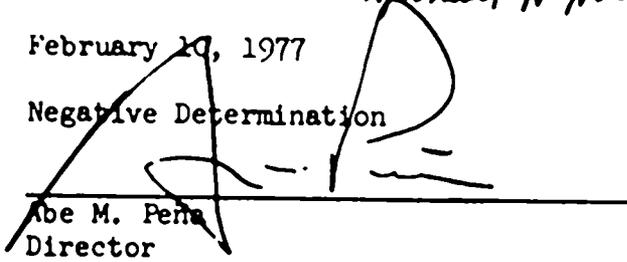
Funding: \$1.5 million guaranty

Life of Project: Guaranties may be issued under current authority until December 31, 1977. Guaranties will cover loans of varying terms; issued guaranties will run for the life of each loan.

Prepared by: Michael H. Hirsh, Assistant Capital Development Officer *Michael H. Hirsh*

Date: February 10, 1977

Environmental Action Recommended: Negative Determination

Concurrence:   
Abe M. Peña  
Director

Date: February 11, 1977

Assistant Administrator's Decision: Approved \_\_\_\_\_  
Disapproved \_\_\_\_\_

\_\_\_\_\_  
Signature Date: \_\_\_\_\_

## INITIAL ENVIRONMENTAL EXAMINATION

### I. Examination of Nature, Scope and Magnitude of Environmental Impacts

#### A. Description of Project

The proposed Project will enable loans to be made to small borrowers (individuals and groups) without access to traditional sources of credit because they lack sufficient collateral for agricultural credit and self-help community development projects. Examples of activities to be financed include wells, pumps, farm machinery, improved seed, fertilizer, pesticides, food industry development, improved breeding stock for farm animals, sanitation facilities, looms, other handicraft aids, and machinery for small industries in rural areas and small towns. Loans will be made by eligible private financial intermediaries with a guaranty of collection of 75 percent of each loan offered to each lender as an incentive to participate in the program.

#### B. Identification and Evaluation of Environmental Impacts

The proposed Project will establish a guaranty fund which will issue guaranties to encourage private banks and other private lending organizations to make loans for agricultural credit and self-help community development projects. The loans will be made on reasonable terms to organized groups or individuals residing in a community to enable them to carry out these projects for which they are unable to obtain other financial assistance on reasonable terms. Eligible loans made are expected to be rediscounted up to 60 percent through the Central Bank. In these and other respects, the proposed Project can be considered an intermediate credit institution activity.

It is possible to identify the general nature of the loans which will be made under the Project. Investments in artisan activities will include small-scale knitting, hat making, and metal crafts. It is expected that no significant environmental impact will derive from these activities. Small rural enterprises will primarily include commercial and service activities. The environmental impact of these activities are expected also to be negligible. Agribusiness activities are expected to include small-scale industries established for the assembly, processing, marketing, and distribution of small farmer-produced agricultural products, or for the production and distribution of factor inputs. Some of the small industries established in this category may have minor environmental implications, but they are likely to be negligible. Finally, perhaps a majority of the projects will be small-scale agricultural credit activities involving more intensive cultivation of existing lands, expansion of land areas being cultivated, or the undertaking of new agricultural or livestock activities, all on a small scale by farmers working less than 20 hectares of land. The environmental effects are also expected to be negligible. The above activities fall into the general class of activities which

will not normally require the filing of an Environmental Impact Statement or the preparation of an Environmental Assessment, according to Section 16.2(f) of Appendix 5C of Handbook 3, entitled, Environmental Procedures, since a guaranty project is not for the purpose of carrying out a specifically identifiable subproject.

In addition, the essentially intermediate-credit-institution nature of the Project would appear to qualify it to the third category for which a Negative Declaration is recommended by the DEE Guidelines. In this regard, the proposed activities represent a programmatic approach which includes a variety of activities, and which have been, and will continue to be, applied by the Agency on a national basis in Latin American countries under the experimental program of small loan guaranties authorized by Section 222A of the FAA of 1974.

11. Recommendation for Environmental Action

A Negative Determination is recommended.

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IMPACT IDENTIFICATION AND EVALUATION FORM

Impact  
Identification  
and  
Evaluation 2/

Impact Areas and Sub-areas 1/

A. LAND USE

- |  |       |
|--|-------|
| 1. Changing the character of the land through: |       |
| a. Increasing the population -----             | N     |
| b. Extracting natural resources -----          | N     |
| c. Land clearing -----                         | L     |
| d. Changing soil character -----               | N     |
| 2. Altering natural defenses -----             | L     |
| 3. Foreclosing important uses -----            | N     |
| 4. Jeopardizing man or his works -----         | N     |
| 5. Other factors                               |       |
| _____  | _____ |
| _____  | _____ |

B. WATER QUALITY

- |   |       |
|---|-------|
| 1. Physical state of water -----        | N     |
| 2. Chemical and biological states ----- | N     |
| 3. Ecological balance -----             | N     |
| 4. Other factors                        |       |
| _____                                   | _____ |
| _____                                   | _____ |

1/ See Explanatory Notes for this form.

2/ Use the following symbols: N - No environmental impact  
L - Little environmental impact  
M - Moderate environmental impact  
H - High environmental impact  
U - Unknown environmental impact

IMPACT IDENTIFICATION AND EVALUATION FORM

C. ATMOSPHERIC

- 1. Air additives -----           N
- 2. Air pollution -----           N
- 3. Noise pollution -----           N
- 4. Other factors
- \_\_\_\_\_           N
- \_\_\_\_\_

D. NATURAL RESOURCES

- 1. Diversion, altered use of water -----           N
- 2. Irreversible, inefficient commitments -----           N
- 3. Other factors
- \_\_\_\_\_           N
- \_\_\_\_\_

E. CULTURAL

- 1. Altering physical symbols -----           N
- 2. Dilution of cultural traditions -----           N
- 3. Other factors
- \_\_\_\_\_           N
- \_\_\_\_\_

F. SOCIOECONOMIC

- 1. Changes in economic/employment patterns -----           M
- 2. Changes in population -----           N
- 3. Changes in cultural patterns -----           L
- 4. Other factors
- Changes in traditional agriculture
- Cultivation practices                           L

IMPACT IDENTIFICATION AND EVALUATION FORM:

G. HEALTH

- 1. Changing a natural environment -----       N
- 2. Eliminating an ecosystem element -----       N
- 3. Other factors
- N
- 

II. GENERAL

- 1. International impacts -----       N
- 2. Controversial impacts -----       N
- 3. Larger program impacts -----       N
- 4. Other factors
- N
- 

1. OTHER POSSIBLE IMPACTS (not listed above)

- N
- 
- 

See attached Discussion of Impacts.

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