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USAID/NICARAGUA

ASSOCIATION OF PRIVATE BANKS OF NICARAGUA ASOBAPN

Final Report

January 13, 1993

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Price Waterhouse

January 13, 1993

Ms. Janet Ballantyne
Director
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Managua, Nicaragua

Re: Financial Sector Development Project (FSDP)
Contract No.: PDC-226-Z-00-8191-00
USAID/Nicaragua - Association of Private Banks of Nicaragua ASOBAPN
PIO/T No.: 524-0317-3-101188

Dear Ms. Ballantyne:

Attached please find ten copies of our final report, in English, on the *Association of Private Banks of Nicaragua ASOBAPN* prepared by Price Waterhouse, Prime Contractor under FSDP.

It is our understanding that the draft version of this report met with the Mission's approval and that no changes were requested.

We greatly appreciate the opportunity to be of service on this interesting and very important assignment, and look forward to working with you in the future.

Sincerely,

Barbara E. Friday

Barbara E. Friday
FSDP Deputy Director

Enclosure

cc: Rebecca Maestri, PRE/EM

ASSOCIATION OF PRIVATE BANKS OF NICARAGUA
Final Report

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I. BACKGROUND INFORMATION

A. RE-EMERGENCE OF THE PRIVATE BANKING INDUSTRY

In October 1991, the private bank became a financial institution in Nicaragua after having disappeared for 10 years under the Sandinista regime. The first bank authorized for operation by the Nicaraguan Government was Banco Mercantil, followed in rapid succession by Banco de la Producción, Banco de América Central, and Banco de Crédito Centroamericano.

These four private banks entered the financial market, which had previously been controlled by four state banks, and encountered a financial system in which the basic rules and regulations relating to the financial sector had been completely changed. As a result, the private bankers faced several challenges as they entered the market in 1991, including the following:

- BANIC, a state bank and the largest in terms of deposits, controlled 90% of Nicaraguan deposits;
- Banco Nacional de Desarrollo, a state bank, had the largest number of branches in the country, and thus the widest geographical coverage;
- The notion of honoring loans had been lost during the past decade in Nicaragua; and,
- The huge number of cash transactions in Nicaragua had destroyed the concept of the check.

Also, in view of the precedent of nationalizing the private financial system in Nicaragua, private bankers entered the market with utmost caution and with a firm determination to strengthen their position in the economy

B. A.I.D. PROJECT

The A.I.D. project, developed by the Private Sector Office, recognized the potential of private banking activity and the need to strengthen it. A.I.D.'s previous experience with other Latin American countries has shown that support provided to bankers' associations helps to strengthen all banks participating in the system. With this in mind, USAID/Managua hired a two-person team of Price Waterhouse (PW) consultants through the AID/W/PRE Financial Sector Development Project (FSDP) to assess

whether the new private banks were willing to form an association that would promote the growth of Nicaragua's financial system.

II. TERMS OF REFERENCE

This engagement was part of a larger USAID/Managua activity providing technical assistance in four areas:

- Assistance to the Superintendency of Banks
- Diagnostic study of a Bankers' Association
- Diagnostic study of the Establishment of Private Pension Funds
- Diagnostic study of a Private Insurance Market

The principal consultant for the Bankers' Association study was Mr. William Báez Sacasa, a Price Waterhouse consultant who has provided financial sector support to Bolivia during the last three years. Mr. Báez, a Nicaraguan national, has wide experience in the establishment of the National Development Institute [Instituto Nacional del Desarrollo (INDE)] and the High Council for Private Enterprise [Consejo Superior de la Empresa Privada (COSEP)]. Mr. Báez was assisted in this task by Ms. Marguerite Kirst, another Price Waterhouse consultant.

The consultants' main responsibility was to analyze the feasibility of organizing an Association of Banks in Nicaragua. Specifically, they had the following duties:

- Gathering information to assess the "pros" and "cons" of establishing a bankers' association;

- Developing a preliminary agenda detailing the issues the association would deal with and the activities it would carry out during the first year;

- Determining the level of support required from each bank in order to help promote the Association's activities and analyzing the "pros" and "cons" of hiring professional management.

- Preparing at least one presentation for the banks or holding a meeting with banks giving them the opportunity to make a joint decision on whether or not to establish an association

- Developing a Plan of Action to be submitted to USAID establishing the association in the event that the bankers decided to form one.

Agreement to establish the Association was reached. Therefore, the organization of the Association is now underway with active participation of the four private banks currently operating in Nicaragua. In the future, three additional private banks now being organized will join the Association. Thus, by the end of April the Association of Private Banks of Nicaragua (ASOBAPN) will consist of seven private banks.

III. METHODOLOGY

A. INDIVIDUAL MEETINGS

In order to analyze the possibility of establishing an Association and initiating the organization process, the consultants met with the Presidents and General Managers of each bank, the Executive Officers of COSEP, the Presidents of two state banks, and the representatives of four economic groups in Nicaragua. Meetings were also held with attorneys and with the Secretary of the Legislative Assembly. (See the list of persons interviewed in ANNEX A).

B. JOINT MEETINGS

Furthermore, during a two-week period the consultants held four joint meetings with the participation of all the managers of the four banks. It should be noted here that minutes were taken at every meeting and all resolutions adopted with respect to each aspect of the Association's activities were recorded. (See ANNEXES E, F, and G)

C. ANALYTICAL WORK

With the help of local attorneys, the consultants analyzed and prepared a comprehensive report on the legal document which was submitted to the Assembly in order to obtain recognition for the Association as a legal entity. At the same time, a preliminary draft of the Association's By-Laws was drawn up, as was the work agenda and terms of reference for the Executive Secretary of the Association.

IV. PROS AND CONS OF CREATING AN ASSOCIATION

The "terms of reference" clearly provided that the consultants should analyze the arguments for or against establishing an Association. The following sections outline the analyses that were carried out:

A. ARGUMENTS FOR ESTABLISHING AN ASSOCIATION

The arguments in favor of establishing an association include the following:

1. Perception of need

An important element for organizing an Association is that bankers and the community at large perceive the need for one.

After meeting with private and public bankers, the authorities, attorneys, economic groups, and congressmen, the consultants found that all felt there was a strong need to establish an Association. The unanimous view was that organization of the Association should proceed. Undoubtedly, there were divergent opinions at first as to how the association should be organized, who should participate in it, and what provisions should be included in the new association's By-Laws. However, all of these issues were settled in the final meetings, and after two weeks of work a consensus was reached on how the new Association of Banks should operate. The fact that there is a perceived need suggests that the bankers will be very interested in the Association's fulfillment of its objectives and in the implementation of its work plan.

2. Objectives and Work Agenda

For the existence of any association, three key elements must be present: a clear objective; a work agenda and detailed work plan, and personnel and financial support.

a. The bankers presented well-defined objectives which are detailed in Section VI-A of this report.

b. With the participation of all bankers and after a private meeting with the banks' General Managers and Presidents, a comprehensive work agenda was prepared for the first year. This agenda was approved by all bankers and is detailed in Section VI-B of this report.

c. The bankers made a commitment to providing personnel and financial support to help shape the Association. Detailed information on the subject is provided in Section IX of this report.

3. Need for Analysis and Lobbying

All banks face common problems which an organized association could likely resolve. The Government has not yet clearly defined the banks' role, while at the same time the Superintendency is very weak and the Central Bank is continuously changing the rules of the game. Also, three important laws which directly affect the banking community at large have been proposed and are currently under study. These laws are:

a. The General Banking Law
b. The Superintendency Law
c. The Central Bank Law

The private banks are uninformed of the proposed laws being prepared by the Executive Branch, a fact which is certainly unfavorable. As an Association, the banks could study the proposed laws, issue opinions, and define relations with institutions such as the Central Bank and the Superintendency. Presenting a common front before the Executive Branch, the Assembly, and the international organizations so that the bankers' opinion may be taken into account is a very convincing argument for creating an association.

4. Banking Self-regulation

Another of the most important arguments in favor of creating an Association is the need for a "self-regulating" system, or a "Code of Banking Ethics." Under such a Code, an association of banks might define a "Regulatory Framework" on important issues such as cash deposit ceilings, competition rules, "rumor control", behavior of credit officials, etc. Such a Code would be extremely important in Nicaragua since the Superintendency's regulatory system is still under development, and the agency currently remains very weak.

Furthermore, the liberal environment brought about by the creation of many banks may result in a scenario where all banks could be adversely affected if any single bank faces problems.

The notion of self-regulation and the establishment of a Code of Ethics were approved by the bankers who participated in the meetings, and are dealt with in two sections of the work agenda. Self-regulation is a strong argument in itself for organizing an association of private banks. In a system with no regulations or limits on cash deposits, a very strong temptation to handle funds of dubious origin exists.

5. Integration into COSEP

As an organization, private banks can join the High Council for Private Enterprise [Consejo Superior de la Empresa Privada (COSEP)], the umbrella institution of the private sector system. Before the nationalization of banks in 1979, the Association of Banks was an integral part of COSEP. There are several key reasons why ASOBAPN should join COSEP.

The development of the financial sector is central to fostering development in Nicaragua. Through a banking association, the financial sector would have the same level of participation in COSEP as other associations, namely those of the farmers, builders, manufacturers, businessmen, and other professionals. It could also gain participation in INDE, the top level of COSEP. It is also important to point out that COSEP has a team of consultants specializing in macroeconomic issues that may provide assistance to the banks. With the Association of Banks as one of its members, COSEP may be motivated to promote a financial policy that would foster private sector development.

B. ARGUMENTS AGAINST THE CREATION OF AN ASSOCIATION

1. The Government's Perception

The Nicaraguan Government, could be reluctant to work with an interest group rather than with individual banks. The present Government maintains dialogue with the private banks through the Central Bank. Additionally the Government itself is responsible for three state banks. This situation could be resolved by the creation of a Committee of Financial Institutions, which is referred to in Section 4 of this report.

2. Interest Groups

Interest groups could oppose private banking. Recently, for example, there has been publicity criticizing certain private banks for holding government deposits. Once organized, the Association will be the target of such criticism, thereby reducing the pressure on individual banks. The Association can be a "buffer", and at the same time it has to assume a leadership role. The Association, with its self-regulatory system and leadership strategy, could offset ideological criticism, become a true defender of the system, and, most importantly, promote the benefits of banking for the country's social and economic development.

3. Opposition from the Government

Some individuals within the Government may oppose change, although this may be diminishing, especially since the new President of COSEP took office in September 1991. The Association should strive to change policy rather than get involved in politics. One of the main problems is that the rules of the game are unclear. The Association needs to define a Government-oriented policy rather than a Government-confrontation policy. The adoption of a double-tier structure could lessen the risk of triggering Government opposition.

C. SUMMARY OF PROS AND CONS

In brief, after analyzing the pros and cons of creating an Association, the favorable arguments appear to outweigh the unfavorable ones. Therefore, the consultants recommend that the organization of the Association of Private Banks of Nicaragua proceed.

V. MEMBERS OF THE ASSOCIATION

One of the main issues in organizing the Association was deciding which banks would constitute its membership, and whether membership should include the three state banks, BANIC, Banco Nacional, and Banco Popular. The advantages and disadvantages were discussed and, based on the Consultant's experience in other countries, the proposal to create a double-tier structure was favorably voted upon.

Adopting this structure means that the Association of Private Banks of Nicaragua will consist only of the recently created private banks and those in the process of being created. The Association will have legal capacity, clear objectives, By-Laws, a work plan, and management personnel. At the same time, an "ad-hoc" committee will be formed, to be known as the "Council of Financial Institutions" [Consejo de Instituciones Financieras (CIF)]. The CIF membership will include all private banks that are members of ASOBAPN as well as of the three state banks. This Council will not have legal capacity, but shall meet whenever problems affecting banks at large may arise.

This "double-tier" approach will make the domestic financial system more viable and will avoid opposition from the state banks and the Government. It is important to point out that state banks will be able to participate in some of ASOBAPN's training and advertising programs through the CIF.

Our clear recommendation to private bankers was that they should promote the "double-tier structure" while the Association was being organized. Assuming a leadership position in the "Committee of Financial Institutions" will prove that private bankers behave "in good faith" and have no intention to crowd out state banks.

It should be noted that Mr. Báez has become familiar with the "double-tier structure" in his capacity as a consultant in other Latin American countries where private banks and state banks co-exist. Since the system works successfully in other countries, it also has great potential in Nicaragua.

At the same time, the consultants emphasized five main arguments for organizing an Association of just private banks. These arguments include:

A. INTEGRATION INTO COSEP

If the Association wishes to become a member of COSEP, a step which the consultants consider necessary, the Association must consist of private banks only. COSEP does not accept associations with government members.

B. INTERNATIONAL SUPPORT

There is a possibility that the Association will receive technical and financial support from international organizations if it is organized as a private institution. This is a very strong argument.

C. PRIVATE BANKS HAVE THEIR OWN AGENDA

As has already been pointed out, private banks have their own objectives and strategy for self-promotion, self-regulation, and defending their own interests. This type of agenda differs considerably from that pursued by state banks.

D. INTERNATIONAL ORGANIZATIONS

At the Latin American level, private banks in 19 countries belong to the Federation of Latin American Banks (Federación de Bancos Latinoamericanos), FELABAN, which is headquartered in Bogotá, Colombia. This Federation, which represents only private banks, offers a number of benefits in many areas. Therefore, it is recommended that ASOBAPN join the FELABAN.

E. MEETING WITH STATE BANKS

In discussions of the "double-tier structure" with the Presidents of Banco Nacional and BANIC, both responded favorably to the system.

Bankers' Approval

According to the minutes of the Association's second meeting, held on Monday, March 9, 1992, the Consultant was asked to carry out an analysis designed to clarify the advantages and disadvantages of an Association consisting only of private banks.

In the third meeting, held on Wednesday, March 11, 1992, the five arguments noted above were presented, and it was decided that the Association would consist only of private banks: the 4 banks already operating and the 3 new banks under organization. (See item 2 of that meeting's minutes.) At the same time, the organization of the Council of Financial Institutions would be promoted. (See Annex B).

VI. DEVELOPMENT OF A ONE-YEAR AGENDA FOR THE ASSOCIATION

One of the main responsibilities assigned to Price Waterhouse was to define a one-year work agenda for the Association. The agenda was clearly defined and approved by all banks. However, the objectives of the Association were defined first, since they are the essential basis for the operation of the Association.

A. OBJECTIVES AND PURPOSE

The main goals and objectives of the Association are:

1. To foster the development of banking and financial activities which provide efficient service to the community at large;

2. To represent the interests of Nicaragua's private sector banks before government authorities, domestic and foreign institutions, and international organizations;

3. To defend the legitimate interests of the affiliated entities and represent each one individually whenever so requested;

4. To petition public authorities for measures that would guarantee the greatest development of banking and financial activities;

5. To study and analyze national and international economic-financial conditions, as well as the behavior of monetary variables, banking and financial activity, and other aspects related to the monetary and real sector of the economy;

6. To organize and provide members with an effective information system on banking issues;

7. To encourage the exchange of information between like institutions within the Association;

8. To agree on advertising guidelines for member institutions so as to eliminate unfair competition; and,

9. To define a banking ethic that would establish general rules of conduct under which private banks would operate to protect their image.

The above described objectives and purposes of the Association have been included in the preliminary draft of the Association's By-Laws, which will be discussed by bankers for their approval.

B. WORK AGENDA

As a result of conversations held individually with the Presidents and Managers of each private bank, and on the basis of their own analysis, the consultants prepared the Association's work program for 1992. The program was submitted to the bankers, who approved them in principle on March 4, as appears in Minutes No. 1-92 of the same date.

So that implementation may begin immediately, the plan has been divided into two stages. Each stage shall have specific requirements that are detailed in this report.

C. FIRST STAGE

The first stage, referred to as the Short-Term Plan, may be implemented immediately with the Association's human resources infrastructure, without waiting for the Association to receive legal capacity. The plan to be followed is described below:

1. Analysis of Proposed Laws

At present, the priority of private bankers is to analyze the proposed laws that affect banks such as the new Banking Law, the Superintendency Law, and the Central Bank Law.

For that purpose, a committee of four attorneys from participating institutions of the Association should be established under the auspices of ASOBAPN. Price Waterhouse will send an independent consultant to work with the committee for two weeks reviewing the laws.

The legal advisers and the independent consultants should prepare a joint opinion on the proposed laws, and this process should be followed when reviewing other laws affecting banks in the future.

2. Development of Lobbying Strategies

It is necessary to supplement the review of laws with a lobbying strategy before the legislative authorities. For the purpose of achieving these aims, the Price Waterhouse consultant will provide a Lobbying Strategy Manual for ASOBAPN to implement.

The manual will be explained by the independent consultant, who will be travelling to Nicaragua under FSDP contract to review the laws. It is important that the lobbying mechanism be applied as an ASOBAPN strategy.

3. Awareness Campaign

Managers of the banks shall elect one of themselves to manage the Awareness Campaign. The purpose of the campaign is to make people aware of the importance of banking and savings, the viability of checks, and the need to honor loans.

Cost estimates for implementing such a campaign should be requested from three advertising companies, and appropriate financing should be sought.

4. Code of Banking Ethics

In the light of the present situation, a Code of Banking Ethics should be developed within the Association.

The Code must provide clear rules of conduct by which banks shall abide in their mutual relationships. One major problem that makes such a Code necessary is that the spread of rumors harming any single bank will create a bad reputation for the whole private system.

The Consultants will send a draft Code of Ethics based on the codes in force in three Latin American countries. Restraint from interfering in each bank's internal policy will allow for healthy competition and will foster the good reputation of the whole private banking system.

Implementation of this short-term plan is feasible with the banks' present infrastructure; an attorney should be hired on a quarter-time basis, however, to coordinate the scheduled activities. Each bank's estimated cost for hiring an attorney and a secretary would be 100 dollars.

D. LONG-TERM PLAN

The long-term plan requires the infrastructure typical of an Association and the hiring of a full-time Executive Secretary.
The plan consists of the following:

1. Automation and Standardization

An inventory of the banks' information equipment will be made in order to standardize information systems. Any new equipment common to all banks may be purchased jointly so as to reduce outlays.

2. Legal Analysis

It is necessary to continue implementing the mechanism adopted under the Short-Term Plan for reviewing new Government laws affecting the private financial system. This task should be entrusted to the Banks' Legal Committee consisting of attorneys from each bank. The support of outside technical assistance may be sought in very specific cases, if warranted.

3. Creation of a Data Base

A person should be hired to study the creation of a Data Base for collecting of macroeconomic and financial information. Installment of a computer system to store the information will be considered.

4. Training Program

One of the Association's most important activities will be to develop a training program for bank employees. A survey of the banks' present needs should be carried out and a preliminary training project should be prepared. The project could be financed by an international institution.

The Price Waterhouse Consultant will send ASOBAPN an outline of the bank training program developed jointly by the Consultant and other experts in Bolivia. Other programs will also be sent. It is suggested that a banker be named to head the Training Committee, especially taking into account that the training program will start in late March, with the first courses for bankers offered by A.I.D.

5. Assessment of the Legal Situation

The bankers are concerned about the legal framework under which they operate, with particular respect to the recovery of collateral.

Experts in this area should be hired to assess the situation. The World Bank has prepared several papers on this subject, and the Price Waterhouse Consultant will provide the names of the individuals to be contacted at the World Bank. In addition, a list of the studies prepared on this subject in Bolivia, Peru, and Argentina will be provided.

6. Banking Reference System

A system should be developed under which banks would be able to exchange, on a confidential basis, basic information on loan customers.

This is a very important and sensitive topic because of the confidentiality issue. The Consultant will send an outline of systems being used successfully in other counties.

7. Self-regulatory Code for Deposits

An element of great concern is the current lack of a regulation code for cash deposits. The banks should agree on provisions specifying the maximum cash amount which can be received for deposit.

This importance of this issue is highlighted by the need to protect the system from external elements using Nicaragua as a stepping stone for the mobilization of funds of dubious origin.

8. Banking Insurance

An analysis will be carried out on the possibility of establishing an insurance scheme for public deposits similar to the FDIC system used in the United States. A.I.D. support will be requested for establishing this scheme.

9. Research and Development Program

During the second stage, it is important to supplement the Data Base with the creation of a Department responsible for Research and Development activities in the different economic fronts. An individual should be hired who would be responsible for this program.

10. Small Firms Lending Programs

The provision of credit to small firms is very important to the overall development of the country's economy, and there is a trend for loans of international institutions to be linked to the extension of loans to private firms.

Skills must be developed in the banking community, in particular among credit analysts, to assess and monitor these loans.

As noted earlier, this long-term plan requires an infrastructure, i.e., a full-time Executive Secretary. Therefore, the banks must increase their contributions if the program is to be implemented.

The short and long-term plans described above outline the details of the Association's activities for next year. Though ambitious, the plan of activities may be carried out with only a minimum personnel infrastructure if bankers are willing to work together, and if the international financial institutions provide support.

VII. LEGAL ORGANIZATION OF THE ASSOCIATION

A. PRESENTATION BEFORE THE NATIONAL ASSEMBLY

On August 20, 1991, a legal document creating the Nicaraguan Bankers' Association (Asociación Bancaria Nicaragüense) was drawn up under the auspices of Banco Mercantil, the only private bank operating in the country on that date. Representatives of Banco Mercantil, Banco Inmobiliario de Nicaragua, and Banco de la Vivienda de Nicaragua, were also present at the notarization of the document.

Banco Mercantil's initiative was aimed at obtaining recognition of the Bankers' Association as a legal entity. Decree 639, of February 10, 1991, also referred to as "Law on the Granting of Legal Capacity" (Ley de Concesiones de la Personería Jurídica), mandates that three persons must appear to organize an association. Banco Mercantil included two banks which although no longer operating, were in operation at the time. The other private banks were not yet organized.

On October 10, 1991, the Secretary to the National Assembly recorded the filing of the legal document organizing the Association for its approval by the Assembly.

Upon the Consultant's arrival in Nicaragua, a preliminary project for the organization of the Association had already been submitted, but had not yet been approved by the National Assembly.

In March, four private banks were already operating, including Banco Mercantil, which had proposed the creation of the Association. The other three banks suggested that a new legal document be submitted including them as founders of the Association. Banco Mercantil believed that the document already submitted to the Assembly ought to be maintained. There was no agreement on how to proceed, and a situation developed which threatened the prospects of organizing an Association.

B. LEGAL ASSESSMENT

In the light of these divergent opinions and the ensuing difficulties to create the Association, a legal assessment of the document submitted to the Assembly was carried out. With the support of local attorneys and after interviewing members of the Legislative Assembly, it was determined that Decree 639 would be repealed and replaced by a new decree referred to as "General Law on Non-profit Legal Entities" (Ley General sobre Personas Jurídicas sin fines de lucro).

Under the new decree all Associations would have to submit a new request for its approval by the Assembly. With respect to the Association of Banks, a new legal document had to be submitted, since the new decree provides that "The agreement by which associations, federations, and confederations are organized shall be evidenced by a legal document signed by five legally capable persons" (Article 2 of the new Law).

As a result, under the law, a new document signed by five persons representing the five banks had to be submitted.

C. SOLUTION OF THE LEGAL PROBLEM

The President of Banco Mercantil appeared at the bankers' meeting held on March 11 and stated that he would withdraw the original document so that the process could start again. The bankers present at that meeting expressed their appreciation for Banco Mercantil's support. This act was a major step forward, since it represented a solution to the legal problem threatening the organization of the Association.

D. LEGAL FOLLOW-UP

After evaluating all elements of the situation, the bankers decided to submit a new legal document bearing the five bankers' signatures. The documentation will be prepared for submission as soon as the new decree on associations is adopted.

The Consultant was requested to prepared a preliminary draft of the Association's By-Laws, based on the comments provided by the attorneys of Banco de la Producción and on the By-Laws of similar associations. The preliminary draft was submitted at the following meeting.

During the final meeting, held on March 13, the Consultant submitted the preliminary draft of the Association's By-Laws (see Annex C) for the consideration of the bankers present.

The By-Laws were prepared on the basis of bankers' recommendations, the experience of other countries, and the operability of the system in Nicaragua. To preserve neutrality, Price Waterhouse will prepare the legal document to be submitted to the National Assembly through its local attorney, Mr. Francisco Ortega. The document shall be approved by the members of the Association.

In summary, with the Consultant's support, the differences among banks regarding the request already submitted for the creation of the Association were settled. A new legal document bearing the signatures of all private bankers will be prepared and submitted to the National Assembly once the new decree has been approved. The proposed By-Laws have already been submitted to the banks. Substantial progress was achieved in the legal aspects of the process of organizing the Association of Private Banks of Nicaragua.

VIII. DETERMINING THE LEVEL OF SUPPORT FROM BANKS

An additional responsibility of the Consultants under the "Terms of Reference" was to determine the level of support required from each bank in order to achieve the purposes of the Association and to implement its work plan. As explained in Section VI of this report, the work plan has been divided into two stages: the short-term program and the long-term program. Each stage will require a different level of support from each bank.

A. LEVEL OF SUPPORT FOR THE FIRST STAGE

During the first stage, the Association will focus on organizing the Association, reviewing new laws, self-regulation, i.e. the "Code of Ethics," and the awareness campaign (See Section VI).

1. For the legal aspects of its organization, the Association will receive the support of attorneys (financed under the FSDP contract) for submission of the document before the Legislative Assembly.

2. With regard to the analysis of the Banking Law, under the same contract, Price Waterhouse undertakes to send an independent consultant to support bankers in the analysis.

3. With respect to the awareness campaign, estimates will be obtained from three advertising firms so that financing may be requested once the strategy has been defined.

4. In relation to the Code of Ethics, the Price Waterhouse Consultants will send copies of similar codes from other countries.

B. INITIAL INFRASTRUCTURE

In order to carry out these activities, a minimum infrastructure is required for their coordination. For operational purposes, during the last meeting, held on March 13, it was proposed that the following four working committees be created:

1. Organizing Committee. With the help of Price Waterhouse, this Committee will be responsible for monitoring the recognition process of the Association as a legal entity and approval of its By-Laws.

Responsible party: Banco de Crédito Centroamericano. All legal documents relating to the organization of the Association and the minutes of the meetings were delivered to Mr. Eduardo Montealegre, Manager of Banco Centroamericano.

2. Banking Training Committee. This Committee will be responsible for coordinating the bank training strategy. Price Waterhouse consultants will send information materials on the subject.

   Responsible party: Banco de la Producción

3. Advertising Committee. This Committee will be responsible for coordinating the advertising campaign.

   Responsible party: Banco de América Central

4. Legal Review Committee. This Committee will be responsible for coordinating the committee of attorneys so that, together with the outside consultants, they may analyze the different proposed financial laws.

   Responsible party: Banco Mercantil.

C. EXECUTIVE SECRETARY

In the meeting held on March 13 it was agreed that an attorney be hired on a quarter-time basis to act as a provisional Executive Secretary during the organizing period, with the main purpose of coordinating these committees. It was resolved to proceed with the hiring of an attorney, who will be interviewed during the next meeting.

Each bank agreed to contribute $100 per month to pay for the attorney's fees. This will be the level of support that the banks will provide during the first stage.

D. LEVEL OF SUPPORT FOR THE SECOND STAGE

The work agenda for the second stage is more complex. Thus, a more extensive and permanent infrastructure will be needed. A full-time Executive Secretary, a secretary, and a messenger should be hired. The total cost would be US$2,800 per month, to which each of the seven banks now operating would contribute US$400. To avoid additional costs, these individuals would operate from the facilities of one of the private

sector associations, preferably INDE or COSEP itself, which would provide office space, electricity, telephone, fax, and other requirements during the first stage. In the past, these institutions have supported the organization of new associations in the initial stage.

The Executive Secretary's terms of reference are detailed in Annex D.

In principle, the banks are prepared to contribute this amount, but they look forward to seeing the results of the first stage and the incorporation of other banks.

The second stage is scheduled to begin in August, 1992, once the Association acquires legal capacity and is entitled to receive funds from the banks, as well as technical support from international institutions.

E. PROS AND CONS OF HIRING AN EXECUTIVE SECRETARY

During the first stage it will be necessary to hire an Executive Secretary on a part-time basis only, since his tasks would be limited to taking the legal steps for the organization of the institution and coordinating the activities scheduled for this stage.

There are valid arguments that make it highly necessary to hire a full-time Executive Secretary for the second stage. These arguments include:

1. The work agenda for the second stage is extensive and complex, requiring a person to coordinate and implement it.

2. As banks grow and more private banks enter the Association, the Association will demand more time and effort. Thus, it will be essential to have an Executive Secretary for the successful coordination of the Association's activities.

3. It is deemed appropriate and advisable that the Association's Executive Secretary have the necessary experience and training to become the Association's "spokesperson" in special circumstances. This would allow a reduction in the pressure that the media may exert on an individual bank's manager.

4. A very important argument for having an Executive Secretary is to give the Association visibility. Also, the Secretary could represent the Association at the Executive Secretaries' meetings that COSEP or other chambers may organize.

5. At the international level, bankers' associations hold several meetings. It is important for the Executive Secretary to participate in some of them. Travel expenses and per diem are provided for most of these meetings. The Secretary would be the ideal candidate to replace the managing officers of the Association, should these be unable to attend such meetings.

In the most recent meeting, the bankers expressed their agreement to hire a full-time Executive Secretary to implement the agenda for the second stage.

A sole argument exists against hiring an Executive Secretary: finding the appropriate person to assume such responsibility. With proper training, however, this problem may be overcome.

In summary, arguments favor hiring an Executive Secretary for the Association.

IX. MEETING WITH BANKERS

One of the most important items in the "terms of reference" for this assignment was holding joint meetings with bankers and submitting a presentation on the feasibility of organizing an Association.

A. SUMMARY OF THE MEETINGS

During the two-week consultancy, four meetings were held with representatives from four private banks operating in the country. The meetings were highly fruitful--specific resolutions were adopted and recorded in the minutes. More importantly, as a result of those meetings the importance of creating an Association became clear, and the exchange of views allowed for the clarification of some issues, the development of new ideas, and the definition of programs. Following is a summary of the resolutions adopted in each meeting:

1. First Meeting

The first meeting took place on Tuesday, March 3, 1992, on the second day after PW's arrival. The Consultant's work program was defined. Also, on the basis of analyses and discussions held with bankers on an individual basis, a work plan for the future Association was submitted. The plan was approved, and the Consultant was requested to define the terms of reference relating to each item of the agenda. (See Annex E to Minutes # 1-92).

2. Second Meeting

The second meeting, held on Monday, March 9, 1992, was mainly explanatory. The Consultant presented the opinion of the local attorneys and their analysis of the legal document submitted by Banco Mercantil in October, 1992, for obtaining the recognition of the Association's legal capacity. Questions arose as to who should form the Association and whether state banks should be admitted as members. The Consultant was asked to study this issue. Outside technical support for the study of the proposed laws as well as training for the banks' credit managers was offered. (See Annex F to Minutes # 2-92).

3. Third Meeting

The third meeting took place on Wednesday, March 11, 1992. the consultants consider this to be the most important meeting because specific resolutions were adopted. It was resolved that once Banco Mercantil had withdrawn the project it had submitted to the Assembly, a new legal document would be drawn up with the signature of all banks. The document will be submitted once the decree on associations is approved. After an assessment of the advantages and disadvantages of the state banks' participation, it was definitively resolved that the Association should consist only of private banks. It was agreed to simultaneously promote the creation of the "Council of Financial Institutions", an "ad hoc" committee in which state and private banks would participate. Once the above mentioned points were clarified, the Association "was born and acquired a life of its own" (See Annex G to Minutes # 3-92).

4. Fourth Meeting

The fourth and last meeting took place on Friday, March 13, 1992. This meeting was of an executive nature.

The Consultant submitted the preliminary draft of the Association's By-Laws for the bankers' consideration. They committed to study the draft. Also, it was resolved that Mr. Francisco Ortega would draw up the document requesting legal capacity for the Association, and that it would be submitted to the National Assembly once approved by the bankers. The Training Committee was created under the responsibility of Banco de la Producción. The Advertising Committee will be headed by Banco de América Central, while the Organizing Committee will be presided over by Banco de Crédito de Centroamérica. Banco Mercantil will be responsible for legal studies. It was decided that a part-time attorney to act as Executive Secretary would be hired. Lastly, the Consultants summed up the activities carried out during the two-week period and made available to the bankers a memorandum containing a one-year work plan for the Association.

B. OUTCOME OF THE MEETINGS

In conclusion, the four meetings were highly fruitful. Specific decisions were adopted, and doubts were cleared. In the final analysis, it was possible to organize the Association under a new legal framework, with the participation of private banks only, with a defined work plan, and with the banks' initial financial support, and, during the first stage, with the hiring of a part-time Executive Secretary. The objectives defined in the terms of reference were achieved. The Association of Private Banks of Nicaragua was organized.

X. ACTION PLAN AND TERMS OF REFERENCE TO SUPPORT THE ORGANIZATION OF THE ASSOCIATION

In the previous pages we have explained the feasibility of organizing an Association of Private Banks in Nicaragua, ASOBAPN. This section presents an action plan for the future support of the Association according to the Terms of Reference.

A. FUTURE KEY ROLE OF PRIVATE BANKS

Since private banking in Nicaragua will play an important role in the development of the country and its economic reactivation, the Association should be supported by specific and clear programs. The importance of private banking in Nicaragua is evidenced by the following:

1. Private banking in Nicaragua is becoming a multibanking system, in which banks perform activities ranging from development to housing credits. This is a new concept in Nicaragua as well as in Latin America.

2. There is no "capital market" in Nicaragua. Certificates of deposit are almost non-existent and banks operate mostly with short-term credits. There is a tendency toward " dollarization," and one can assume that within a year, 80% of the deposits will be denominated in US dollars.

4. The PW team was welcomed by bankers and government officials who favor the creation of a capital market in Nicaragua through the establishment of private insurance and pension funds. Banks, or the economic groups that support the banks, will be very interested in promoting the creation of pension funds in Nicaragua.

4. If the banks are to offer long-term development financing, they will have to work with the international donor agencies. Onlending, especially to small enterprises and the informal sector, could make an important input in the development of the country.

5. Some interest groups may discredit the establishment of a private banking system in Nicaragua. It is very important to strengthen the banks and the Association so they are prepared for criticism and can become opinion leaders in a free market economy.

6. The state banks are largely inefficient and need to be modernized or consolidated.

Private banking will play a very important role in Nicaragua's future financial system. Therefore, private banking should be strengthened, especially the Association. The visit of PW consultants in Nicaragua was a first step, however it is necessary to carry out a Banking Institutional Strengthening Program as well.

B. PROGRAM FOR THE INSTITUTIONAL STRENGTHENING OF BANKS

Private banking can and should play a very important role in Nicaragua's future financial system. A bank association can make a very positive contribution to this process. Among other functions, an association can help develop the human resources needed by Nicaragua's growing banking community; it can also educate the public regarding the services offered by private banks and their role in economic growth and development. The following program outlines the actions which need to be taken and the services the Association can offer.

1. Association Strengthening

a. Institutional Support

This component consists of strengthening the Association's structure, defining the activities of the four committees, supporting the implementation of the action plan and drafting operating manuals.

b. Strategic Planning

It is necessary to develop, within the Association, a strategic plan and the corresponding goals, benchmarks and evaluation methods.

c. International Contacts

It is important to design a program of international contacts with banking associations in other Latin American countries. These contacts will be very useful for ASOBAPN.

d. Training Program

It is necessary to design and implement a training program for the Association's executives, especially the Executive Secretary.

e. Lobbying Program

The Association needs to design a lobbying strategy and implementation plan. Part of this program will train bankers in how to lobby and how to make TV appearances and radio interviews. This training is very important, as it will allow the bankers to present their points of view in public.

f. Publicity Campaign

Based on the experience of other countries, the Association should design a publicity campaign.

2. The Banks

This component will address the needs of the member banks.

a. Staff Training

One important service the Association can prove is training to the staff of its member banks. A needs assessment should be performed and a program designed that would be coordinated by the Association. The experience of other countries, such as Bolivia, Chile and Peru will be useful.

b. Support Creation of a Capital Market

The Association can help the banks push for the development of the capital market, for example through pension funds, private insurance, stock market, privatization bonuses, etc.

c. Small Enterprise Program

The Association should work with the banks to prepare a strategy that allows the banks to develop the capacity to approve and follow-up credits for the small enterprise.

d. Support to the Multibanking System

It is necessary to support the banks in order to develop the new multibanking concept.

Annex A

LIST OF INDIVIDUALS INTERVIEWED

	NAME	INSTITUTION
PRIVATE BANKING		
1.	Haroldo Montealegre	Presidente Banco Mercantil
2.	Esteban Duque Estrada	Gerente General Banco Mercantil
3.	Carlos Pellas	Presidente Banco de América Central
4.	Carlos Matus Tapia	Gerente General Banco de la Producción
5.	Pablo Ayon	Presidente Banco de la Producción
6.	Chale Espinosa	Gerente General Banco de la Producción
7.	Roberto Zamora	Presidente Banco de Crédito Centroamericano
8.	Eduardo Montealegre	Gerente General Banco de Crédito Centroamericano
9.	Leonel Argüello	Presidente Interbank

STATE BANKS

10.	Benjamin Lanza	Presidente Banco BANIC
11.	Juan A. Munguía	Presidente Banco Nacional

COSEP

12.	Ramiro Gurdian	Presidente
13.	Mauricio Baca	Secretario Ejecutivo

Annex B

ASSOCIATION OF PRIVATE BANKS OF NICARAGUA

(ASOBAPN)

Basic Structure

Council of
Financial Institutions
(no legal capacity)

ASOBAPN
(legal capacity)

State Banks
(legal capacity)

Annex C

CHAPTER I
TYPE OF ASSOCIATION, MEMBERSHIP, OBJECTIVES, OPERATIONS, AND LOCATION

Article 1. The Association is called the "Association of Private Banks of Nicaragua," [Asociación de Bancos Privados de Nicaragua] and is designated by the acronym "ASOBAPN." It is a private, non-profit, non-partisan association composed of all private sector banks and financial institutions. The association is independent, with a legal capacity distinct from that of its members, and is entitled to assume rights and obligations. It is governed by the By-Laws presented herein and by the applicable laws of the Republic of Nicaragua.

Article 2. The main goals and objectives of the Association are:

a) To foster the development of banking and financial activities which provide efficient service to the community at large;

b) To promote and strengthen cooperation and solidarity among its members;

c) To represent the interests of Nicaragua's private financial sector before government authorities, domestic and foreign institutions, and international organizations;

d) To represent the country's private financial sector before organizations in national or international events;

e) To defend the legitimate interests of the affiliated entities and represent each one individually whenever so requested;

f) To petition government authorities for measures that would guarantee the greatest development of banking and financial activities;

g) To study and analyze national and international economic-financial conditions, as well as the behavior of monetary variables, banking and financial activity, and other aspects related to the monetary and real sector of the economy;

h) To provide members with advisory, consulting, and arbitration services, if so requested;

i) To organize and provide members with an effective information system on bank issues;

j) To promote the exchange of reports and experiences among members;

k) To encourage the standardization of general rules governing relations among member institutions and their employees;

l) To encourage the exchange of information between like institutions within the Association;

m) To agree on advertising guidelines for member institutions, to eliminate unfair competition;

n) To establish general utility services for the benefit of its members;

o) To define a banking ethic that would establish general rules of conduct under which private banks would operate to protect their image;

p) To encourage all banking activities which contribute to the economic recovery of Nicaragua and facilitate the process of economic integration of Central America with Continental America; and

q) The Association shall have the right to purchase all types of urban or rural property or any other kind of assets, to receive loans and foreign and domestic grants, to sell, to buy, to mortgage all types of personal and real property, to enter into all kinds of contracts and legal business arrangements, and to carry out all activities not prohibited for this type of Association.

The objectives stated above are not restrictive, in that the Association shall have the right to pursue any other objective related to those mentioned herein, with no limitations other than those prescribed by applicable laws.

Article 3. The term of the Association shall be indefinite. The Association shall be located in the city of Managua, Nicaragua, and shall be entitled to establish and install representations and affiliates in any other place in the country and abroad.

Article 4. The Association shall refrain from interfering in the internal affairs and in the business and private activities of member institutions.

The Association shall conduct its business in an impartial manner, always striving for the betterment of each and every one of its members.

CHAPTER II

MEMBER INSTITUTIONS

Article 5. Membership in the Association shall be open to every private sector banking, financial, or insurance institution legally authorized to operate in the Republic of Nicaragua. International or multinational banking and financial institutions operating in the country shall also be eligible for membership.

Membership in the Association may be obtained by written request in which the applicant institution declares its stated intention to abide by and uphold the terms and provisions of these By-Laws, of the Rules and Regulations to be adopted, and of any agreements or resolutions adopted by the Association's General Assemblies and Board of Directors.

Article 6. Member institutions shall be represented by designated representatives. The President or senior executive officers of the institution shall be designated for that purpose.

Article 7. The responsibilities of the member institutions are as follows:

a) Compliance with the present By-Laws, with Rules and Regulations to be adopted, and with the Agreements and Resolutions of the General Assemblies and the Board of Directors;

b) Attendance at Board of Directors and General Assembly meetings;

c) Payment of assessed fees and quotas;

d) Provision of general interest reports and statistical data to the Association; and,

e) Fulfillment of the responsibilities and commissions entrusted by the Association.

The specific obligations under b) and e) shall be fulfilled by member institutions through their representatives.

Article 8. The members of the Association shall have the following rights:

a) To be represented in the General Assemblies, participate in discussions, and enjoy freedom of the vote;

b) To comprise through their representatives the staff of the Association's Board of Directors; and,

c) To request and receive without discrimination those services that the Association may provide, be they general or specific in nature as they relate to the member's activities.

Article 9. Membership in the Association shall be terminated:

a) by voluntary withdrawal, following a three-month prior written notification to the Board of Directors;

b) by suspension imposed by the Association's Board of Directors for serious infractions of the By-Laws or blatant noncompliance with the decisions and agreements of the General Assembly or the Board of Directors; or,

c) by expulsion, as a result of noncompliance with the Association's rules and principles, or by legal resolution. A founded statement of cause by the membership's General Assembly must exist for a member to be barred from the Association. However, cause need not be made public.

Article 10. Before suspending or expelling a member from the Association, the Board of Directors shall designate a commission made up of two of its members to undertake the necessary procedures for substantiating the charges . The member shall be informed of the Commission's report and shall have fifteen days in which to abide by the decision or contest it, offering in this case the rebutting evidence deemed appropriate and acceptable to the Commission. On the basis of these, the Board of Directors shall issue a subsequent resolution which shall become effective once approved by the next General Assembly.

CHAPTER III

COMPONENT PARTS OF THE ASSOCIATION

Article 11. The component parts of the Association are:

a) The General Assembly

b) The Board of Directors

c) The Executive Office

CHAPTER IV
GENERAL ASSEMBLIES

Article 12. The General Assembly represents the highest authority of the Association.

Article 13. General Assemblies shall consist of regular and special meetings. Regular meetings shall be held once each year during the month of February. Special meetings shall be held whenever and as often as deemed necessary, through prior notification. Each General Assembly resolution shall be recorded and shall include: a) the place and date where the meeting was held; b) the names of the membership representatives present; c) a brief summary of the proceedings; d) the resolutions adopted; and e) the signatures of the President and Secretary and other participants who wish to sign.

Article 14. General Assemblies shall be composed of representatives designated by the member institutions. Each institution may be represented by up to three persons.

Article 15. The functions of regular General Assembly meetings include:

a) Presenting the report prepared by the Association's Board of Directors covering Association activities during the financial year preceding the meeting, and adopting such measures as deemed necessary for the smooth functioning of the organization;

b) Approving or disapproving the Association's general balance sheet;

c) Approving or modifying the Association's budget for the next financial year;

d) Electing Association Board Members; and,

e) Approving or disapproving the Association's Board of Directors resolutions with respect to the suspension of members.

Article 16. For a General Assembly meeting to take place, two-thirds of the member institutions must be present. Resolutions for both regular and special meetings shall be adopted by a majority vote of those in attendance, except for margins prescribed for special cases as provided in these By-Laws.

Article 17. Association members shall be advised of General Assembly meetings through a written notice eight days prior to the date of the meeting. The notice shall state the order of business, the time, the date, and the place of the meeting.

Article 18. Special meetings of the General Assembly shall be held when so directed by the Board of Directors, or upon a request submitted in writing to the Board of Directors by three member institutions. No business shall be transacted at special meetings beyond what is specifically stated in the notice.

Article 19. The President of the Board of Directors shall preside over General Assembly meetings and the Board's Secretary shall act as the meetings' secretary. The Executive Secretary of the Association shall replace the Board's Secretary in the event of his absence.

Article 20. A quorum at special meetings shall consist of at least two-thirds of the representatives of the affiliated institutions. Decisions adopted at special meetings shall be legal, valid, binding, and enforceable against all members, when such resolutions have been adopted by the prescribed majority established in these By-Laws, according to the type of resolution involved.

Article 21. The following business shall be conducted at special General Assembly meetings:

a) Amendment of the By-Laws through resolutions approved by a two-thirds favorable vote of the representatives in attendance.

b) Consideration of special budgets and decisions regarding contribution and allocation methods among the affiliated institutions through resolutions approved by a three-fourths favorable vote of the representatives in attendance.

CHAPTER V
THE BOARD OF DIRECTORS

Article 22. The Association's Board of Directors is the managing body of the association designed to promote social activities, enforce agreements and resolutions, and serve as the means of communication between the association and government authorities, other institutions, national and foreign organizations, and the general public.

Article 23. The Board of Directors shall be made up of the same number of Permanent Directors as there are members in the Association. Each member institution shall have the right to be represented on the Board by one Permanent Director and one Alternate Director. The President, Vice-president, Secretary, and Treasurer of the Board shall be elected from among the Permanent Directors. The remaining members shall be referred to simply as Directors. The Board of Directors shall meet at least once a month, and a quorum will exist when a majority of members are present. The President shall determine the time and date of the meeting, with notices being issued by the Executive Secretary.

Article 24. Members for the Association's Board of Directors shall be elected at the regular General Assembly meeting through a secret ballot for a term of one year; Board members shall continue discharging their duties until the new election takes place. With the exception of the President, all members can be reelected. A rotating Presidency has been established in order that all institutions, through their representatives, shall have the opportunity to exercise the Presidency.

Article 25. The powers and duties of the Association's Board of Directors are to:

a) Represent the Association through the President before any person or authority;

b) Enter into, amend, renew, and rescind contracts related to the goals of the Association;

c) Manage the Association's property and business with the most general and broad power, including all decision-making power that guarantees the smooth functioning of the Association;

d) Plan and submit the Association's budget to the General Assembly for approval;

e) Present a report at the regular General Assembly meeting on the activities carried out during the financial year;

f) Conduct the general policy of the Association;

g) Issue, amend, and abolish Association Rules and Regulations;

h) Delegate its power to committees or commissions or to any other person and instruct them as to their duties;

i) Convene General Assembly meetings;

j) Hire and dismiss the Association's executive and administrative personnel; assign their duties and powers, and to determine their salaries;

k) Appoint members to the arbitration commission, when necessary;

l) Establish membership fees as well as regular and special quotas to be paid by members;

m) Contract required technical services;

n) Record the proceedings of meetings in a Minute Book, which shall be signed by the President and the Secretary; and,

o) Generally fulfill and oversee compliance with the Association's By-Laws and Rules and Regulations, as well as with General Assembly agreements and resolutions.

Article 26. The resolutions and agreements of the Board of Directors of the Association shall be adopted by a majority vote. The President shall cast the decisive vote in the event of a tie.

CHAPTER VI
THE PRESIDENT

Article 27. The President is the legal representative and spokesperson of the Association and shall serve a term of one year.

Article 28. The President shall have the following duties:

a) Establish work, study, consulting, evaluation, and representation groups;

b) Oversee that the affiliated institutions are aware of the laws, decrees, rules and regulations and instructions of the competent authorities;

c) Designate a person or persons to represent the institution in national or international events, public and private events, and before any another organization in general;

d) Organize conferences, seminars, and other bank related activities;

e) Carry out public awareness campaigns which promote the advantages of banking services;

f) Defend the legitimate rights of the financial system;

g) Represent those member organizations expressly requiring it;

h) Study, revise, and recommend the application of commission and interest fees to serve as a guide in the operations of affiliated institutions; and,

i) Act as arbitrator, mediator, and referee among the member institutions whenever required by the institutions involved.

THE VICE-PRESIDENT

Article 29. The Vice-President shall replace and perform the duties of the President in the event of his absence.

THE SECRETARY

Article 30. The Secretary of the Board of Directors of the Association shall have the following duties:

a) Hold the Minute books for the General Assembly and the Board of Directors, and the Membership Book;

b) Record the minutes for Board of Director and General Assembly meetings, a task for which he may rely on assistance from the Association's Executive Secretary;

c) Transcribe the agreements and resolutions of the Association;

d) Co-sign with the President the minutes of the meetings. However, the minutes may also be signed by anyone in attendance wishing to do so; and,

e) Handle the Association's correspondence.

THE TREASURER

Article 31. The Treasurer is the guardian of the Association's funds, and shall be held personally responsible for such. The treasurer shall have the following duties:

a) Collect the regular and special quotas from members as agreed upon;

b) Pay the Association's administrative staff, and any other costs in the budget mandated by the Board of Directors;

c) Keep the records of the Association;

d) Present monthly statements of the Association's income and expenses to the Board of Directors and statements on the general condition of the Association's accounts; and,

e) Present an annual statement of the Association's income and expenses to the regular General Assembly, and a general balance sheet of the Association's accounts.

Article 32. When, for whatever reason, the Treasurer ceases to perform his duties, the Board of Directors of the Association shall temporarily appoint one of its members to perform this duty, and shall appoint a transition commission to settle accounts with the departing Treasurer and formally install his replacement.

CHAPTER VII
THE EXECUTIVE OFFICE

Article 33. The Executive Office is the functional body of the Association responsible for enforcing the resolutions and instructions of the Assemblies, the Board, and the President; at the same time, as delegated by the Board of Directors, it is responsible for the proper administration of the Association's property and for the development of the institution. The Executive Office is under the responsibility of an Executive Secretary.

Article 34. The Executive Secretary is a full-time paid employee. His appointment is made by the Board of Directors, and he has the following duties:

a) Manage the Association according to the powers vested in him;

b) Represent the institution with all general and special powers necessary, according to the powers vested in him;

c) Act as the Association's property trustee, with all of the responsibilities inherent therein;

d) Underwrite with the President all contractual documents relating to the institution;

e) Replace the Secretaries of the Assemblies and the Board in their absence, acting as a non-voting spokesperson and presenting the reports which might be required by these bodies;

f) Hire staff personnel, and determine their salaries according to the Budget, after first consulting with and receiving the approval of the President;

g) As delegated by the Secretary, handle the correspondence and manage the files, documents, seals, office assets, and other property belonging to the Association;

h) Authorize certificates and copies of the Minutes that are issued;

i) Carry out all administrative legal acts which maximize the efficiency of the institution; and,

j) Send notices for General Assembly and Board meetings in accordance with these By-Laws.

Article 35 The Executive Secretary shall not be able to render services to, nor represent, any affiliated bank before the Assemblies and the Board of Directors.

CHAPTER VIII

NET WORTH AND FINANCIAL OBLIGATIONS OF THE ASSOCIATION

Article 36. The net worth of the Association consists of the personal and real property, rights, and actions that have been acquired either through purchase, donation, or through any other means.

Article 37. Resources of the Association are:

a) Initial membership fees of the Association and those that are collected thereafter.

b) The regular and special quotas that may be established.

c) The voluntary contributions received from member institutions.

d) Any proceeds from, or return on assets belonging to the Association.

e) Other unforeseen income.

Article 38. Association funds shall be deposited as soon as they are received in the Association's name with a bank designated for that purpose by the Board of Directors. These funds shall be withdrawn only through checks signed by the President of the Board and the Treasurer, or by their legal proxies. No payment shall be made without the official approval of the President or, in certain cases, the Vice-President.

CHAPTER IX
RESTRICTIONS

Article 39. No Association staff member shall use his position for personal purposes or for the exclusive interest of the institution to which he belongs and shall therefore use his position only when acting officially as a representative of the Association.

CHAPTER X
INVENTORY AND BALANCES

Article 40. Inventory and Balance Assessments shall be compiled each calendar year, with a copy of the same sent to the Ministry of the Interior of the Republic of Nicaragua. The Membership Book, the Minute Books of the General Assembly and the Board of Directors, as well as the accounting books duly stamped and including a cover letter signed by the responsible official shall also be sent.

Article 41. Accounting for the Association shall be done according to the double-entry system and in accordance with any other system authorized by the law and adopted by the Board of Directors.

CHAPTER XI
INFRACTIONS

Article 42. The Association's Board of Directors will be competent over all infractions of the By-Laws, the rules and regulations, or the resolution of the General Assembly or the Board of Directors. At the same time, it shall have competence over all those acts or practices that harm, are contrary to the Association's goals, or that transgress principles of commercial ethics. In the event that serious infractions are committed in the discharge of Association duties, or disruptions caused to proceedings or improper or undesirable acts also committed, the members of the Association shall lodge their complaints with the Association's Board of Directors so that the Board may take appropriate action.

CHAPTER XII
GENERAL PROVISIONS

Article 43. The present By-Laws can be amended, either in total or in part, by the special General Assembly. A quorum of three-fourths of the representatives of the member institutions and a minimum favorable vote of two-thirds of the representatives in attendance are needed to pass an amendment. The article or articles under consideration for reform should be mentioned when calling the meeting.

Article 44. The Association shall be dissolved by a special General Assembly meeting, specifically convened for that purpose, provided that three fourths of the member institution representatives are present and that a favorable vote is cast by two thirds of the representatives in attendance.

Article 45. The Association shall be dissolved for the following reasons:

a) When the Association finds itself, for whatever reason whatsoever, incapable of performing the duties for which it was established;

b) When the number of members is smaller than half the number of banking, financial, and insurance institutions in the country; or,

c) Through a resolution of the Association, adopted by the General Assembly and approved by a favorable vote of three fourths of the representatives of the member institutions.

Article 46. In case of dissolution, the Association shall nominate a liquidator, who shall dispose of the Association's assets and distribute their proceeds proportionately among the member institutions.

Article 47. The present By-Laws shall become effective as of the date of approval by the Executive Board.

Annex D

TERMS OF REFERENCE
EXECUTIVE SECRETARY
ASOBAPN

1. The Executive Secretary is the chief executive of the Institution. He shall report directly to the Board of Directors and receive from them the general guidelines and policies to be implemented to ensure the proper operation of the Association.

2. He shall keep and be responsible for the Minute Book. At each Board meeting he shall formulate a set of minutes, which will be presented at the next Board meeting for approval. He shall fulfill the duties of the Secretary of the Assembly and the Secretary of the Board.

3. He shall submit periodically to the Board the comparative financial statements of the Institution.

4. He shall present for consideration by the Board information on the Annual Reports, the balance sheet and the settlement of accounts for the financial year, as well as the budgets for quota allocations.

5. He shall schedule regular and special meetings when these are requested by the pertinent authority in accordance with the By-Laws.

6. He shall present periodically to the Board a progress report on the Planning Strategy and the General Agenda, their status of fulfillment, the targets and the goals that they have achieved.

7. He shall meet with the working committees when so requested by the President of the Board.

8. He shall act as Secretary of the four committees that have been organized in ASOBAPN. These committee are: the Organizing Committee, the Banking Training Committee, the Legal Committee, and the Advertising Committee. He shall draw up the minutes for each meeting.

9. He shall maintain a file on all publications related to banking and the financial system that appear in local newspapers.

10. He shall collect financial information that is useful to banks. This will constitute the basis for the Data Bank.

11. He shall coordinate and supervise all technical assistance, both internal and external, provided to the Institution. He shall require strict compliance by consultants with terms of reference and a final report from them.

12. He shall be responsible for ensuring the proper implementation of cooperation agreements made between ASOBAPN and the international institutions that provide assistance; at the same time, he shall provide information required by these institutions in accordance with agreements.

13. He shall deal with press issues in general, and be responsible for coverage of ASOBAPN activities in the press.

14. He shall oversee the high moral quality of the executive staff, instructors, and consultants necessary for projecting an excellent image.

15. He shall represent ASOBAPN in all kinds of proceedings, contracts, and jurisdictions, according to the powers vested in him by the Board.

16. He shall investigate additional sources of financing available from international organizations and shall be responsible for preparing, with the help of his executive team, proposals for such organizations.

17. He shall maintain close contact with the private sector associations, in particular with COSEP and the Chambers of Commerce.

Annex E

MINUTES No. 1--92

We, the following individuals, met on Tuesday, March 3, 1992, at 4:00 P.M. in the city of Managua, at the offices of Banco de la Producción, to analyze the organization of the Association of Private Banks of Nicaragua: Chale Espinoza, General Manager of Banco de la Producción; Esteban Duque Estrada, General Manager of Banco Mercantil; Eduardo Montealegre, General Manager of Banco de Crédito Centroamericano' Salvador Zambrana, Finance Manager of Banco de America Central; David Jesses of AID; William Báez and Margarite Kirst, Price Waterhouse Consultants. The following resolutions were adopted:

FIRST: We, the General Managers of the four Banks manifested our interest in organizing the Association of Private Banks of Nicaragua (ASOBAPN), in association with all commercial banks in Nicaragua.

SECOND: So as not to exclude state banks, the creation of a Council of Financial Institutions, separate from the Association, might be considered, in which commercial banks and state banks would participate.

THIRD: As to the documentation and the notarial document presented to the General Assembly on establishing the Association, it was decided that the Price Waterhouse Consultant would prepare, with the cooperation of local attorneys, an opinion on the proposal and issue a legal analysis for the next meeting.

FOURTH: It was decided that the importance of creating the Association derives from the immediate activities that can be developed. To this end, the Price Waterhouse Consultant would present an agenda of activities for discussion by the participants.

FIFTH: It was agreed that an immediate activity would be to analyze the new Banking Law that the Central Bank and the Superintendence of Banks are currently formulating. All of the bankers present declared that they were uninformed of the law. It was announced that the law would be presented to the National Assembly at the end of March.

SIXTH: In regards to the previous item, it was decided that a letter be sent to the Superintendence of Banks and to the Central Bank requesting a copy of the proposed Law so that commercial bankers might examine it.

SEVENTH: In support of the analysis of the Law, the representatives of Price Waterhouse offered the assistance of a Latin American expert in bank law, so that in collaboration with us and our legal advisers, he might issue an opinion and present us a recommendation on the proposed legislation. In order to formalize this proposal, a formal petition shall be sent in the name of all Banks to Mrs. Janet Ballantyne, Director of AID/Nicaragua.

EIGHTH: The Price Waterhouse Consultant after having met personally with all of the General Managers and Presidents of the Banks, presented to the participants the following agenda of activities that was duly approved.

1. SHORT-TERM PLAN

1.1 Analyze the proposed laws that affect the financial system.

1.2 Develop strategies for lobbying the government.

1.3 Implement a campaign to increase public awareness on the concept of modern banking and on the importance of checks and the repayment of loans.

1.4 Establish a code of banking ethics that defines a framework for self-regulation.

2. LONG-TERM PLAN

2.1 Automate and standardize information systems and equipment.

2.2 Institute legal follow-up to regulations issued by the financial and legislative authorities.

2.3 Create a Data Bank with basic macroeconomic and financial information.

2.4 Implement a bank training program for personnel of financial institutions.

2.5 Analyze the legal system related to the recovery of collateral. (Outline for banking arbitration)

2.6 Implement a banking reference system among the member institutions of the association.

2.7 Design a self-regulation code for cash deposits made by the public.

2.8 Analyze the possibility of establishing bank insurance on cash deposits made by the public.

2.9 Design a program for bank research and development.

NINTH:For the next meeting, the Consultant promised to develop a work plan on the approved agenda of activities that will explain in greater detail the items on the agenda.

TENTH: In view of the fact that it is necessary to formulate the By-Laws of the Association, the Price Waterhouse Consultant will draw up a draft to be presented to the bankers present for their consideration.

ELEVENTH: It was also agreed that the Consultant would prepare the terms of reference for the possible hiring of an Executive Secretary for the Association, as well as a Manual on Operations and Cost Analysis of the Association's operation.

TWELFTH: It was agreed to meet again next Friday, the 6th, at 4:00 P.M. and on Wednesday, the 11th, to evaluate the Consultant's progress on the work and to formalize the organization of the Association.

(signature)
Banco Mercantil, S.A.

(signature)
Banco de la Producción

(signature)
Banco de America Central

(signature)
Banco de Crédito Centroamericano

Annex F

MINUTES No. 2-92

We, the following individuals, met on Monday, March 9, 1992, at 11:00 A.M. in the city of Managua at the offices of Banco de Crédito Centroamericano: Eduardo Montealegre, General Manager of Banco de Crédito Centroamericano; Esteban Duque Estrada, General Manager of Banco Mercantil; Carlos Matus, General Manager of Banco de America Central; Chale Espinoza, General Manager of Banco de la Producción; William Baez and Margarita Kirst, Price Waterhouse Consultants. The purpose of the meeting was to continue the process of organizing the Banks of Nicaragua, and the following resolutions were taken:

FIRST: The Minutes No. 1-91 from the previous meeting was read, and approved with amendments.

SECOND: In light of the fact that all of us bankers have had problems with different Central Bank regulations, it was agreed that each General Manager would draw up a "Memorandum" on this situation. The purpose of such a document is to show one of the reasons for the importance of organizing the Association. The memoranda shall be given to the Consultant who shall then make a summary.

THIRD: The Price Waterhouse Consultant informed about the AID's intent to hire a financial law expert who will provide advisory services to the Bank. The terms of reference for the outside consultant were defined, and at the same time it was suggested to contract the assistance of a local attorney.

FOURTH: With regard to the letter directed to the financial authorities in relation to the new banking laws, the Consultant presented a draft that was approved and that shall be signed by every one at the next meeting and sent to the Central Bank and the Superintendence of Banks.

FIFTH: The Consultant announced to those present the next AID-financed course that shall be given for credit analysts in the INCAE at the end of March. All of those present showed interest in the course and shall send participants.

SIXTH: With regard to the previous item, it was agreed that it should be the Association that should decide on the topics for the courses and that should take the most active role in the program, since its members are more familiar with the needs of

the financial system. It was also agreed that the courses should be free of charge. The Consultant took note and shall transmit this matter to AID and shall bring an answer to the next meeting.

SEVENTH: In fulfillment of the third item of the previous minutes, in which it was recommended that the Consultant analyze together with local lawyers the notarial document submitted to the Assembly relating to establishing the Association, the Consultant presented an in-depth analysis of the lawyers' opinion.

EIGHT: With regard to the previous item, it was decided that each Bank shall analyze the opinion of the lawyers and shall make a final decision at the next meeting.

NINTH:In accordance with the work program, the Consultant presented to the participants the first draft of the By-Laws of the Association. The Price Waterhouse Consultant also suggested that those present analyze the draft so that a resolution might be adopted at the next meeting. The Bankers duly noted this suggestion.

TENTH: It was decided to review the topic of membership in the Bankers Association. In this regard, it was agreed that the Consultant would carry out an analysis and would present his recommendation at the next meeting so that a final decision might be taken.

ELEVENTH: Meetings were scheduled to be held the following Wednesday, the 11th, at 5:00 P.M. at the offices of Banco de America Central, and Friday, the 13th, at 5:00 P.M., at **Bancentro.**

With no further business to discuss, the meeting was adjourned.

(signature)
Banco Mercantil, S.A.

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Banco de la Producción

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Banco de America Central

(signature)
Banco de Crédito Centroamericano

Annex G

MINUTES No. 3--92

We, the following individuals, met on Wednesday, March 11, 1992, at 5:00 P.M., in the city of Managua at the offices of Banco de America Central: Eduardo Montealegre, General Manager of Banco de Crédito Centroamericano; Esteban Duque Estrada, General Manager of Banco Mercantil; Carlos Matus, General Manager of Banco de America Central; Chale Espinoza, General Manager of Banco de la Producción; David Jessee of AID; William Baez and Margarita Kirst, Price Waterhouse Consultants. The purpose of the meeting was to continue the process of organizing the Banks of Nicaragua, and the following resolutions were taken:

FIRST: The Minutes No. 2-92 from the previous meeting was read and approved.

SECOND: In regard to fulfilling the Tenth item on the agenda of the previous meeting, referring to who would constitute the Association of Banks, and after the presentation offered by the Consultant, it was agreed that the Association would be comprised of the commercial banks in Nicaragua.

THIRD: It was decided that a two-tier structure would be implemented, and for this purpose the organization of the Council of Financial Institutions made up of commercial banks and state banks shall be promoted.

FOURTH: Mr. David Jessee of AID gave a presentation on the training program. He emphasized that the courses would be free and that the Association which is in the process of being formed would need to coordinate them.

FIFTH: In regard to the previous item, it was agreed that Mr. Chale Espinoza would coordinate the courses. For the course designed for Credit Analysts and Businessmen, the banks shall provide him with a list of participants before Friday, the 22nd. In regard to the course for businessmen, Mr. Jessee shall receive a list of 10 participants from each bank. The Association shall promote both courses.

SIXTH: **Bancentro** presented to the Consultant the memo on the sector issues, with the other banks receiving the memo on Thursday.

SEVENTH: In regard to legal issues, it was resolved to start anew the process before the Assembly with a new notarial document, this time only involving private sector banks. It was agreed that the Price Waterhouse Consultant would prepare a draft of the notarial document so that it might be approved by the participants once the **law on legal capacity** was amended.

EIGHT: The participants were grateful to Mr. Haroldo Montealegre for the work and efforts in organizing the Association of Banks.

NINTH: In regard to the operational structure of the Association, the Consultant presented short and long-term options, among which were included the hiring of an Executive Secretary, initially on a part-time basis. The participants shall consider the proposal and shall discuss it at the next meeting. Once the strategy has been defined, the Consultant shall develop its terms of reference.

TENTH: It was agreed that the next meeting shall occur on the following Friday, the 13th, at 5:00 P.M. at the offices of **Bancentro**.

With no further business to discuss, the meeting was adjourned.

(signature)
Banco Mercantil, S.A.

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Banco de la Producción

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Banco de America Central

(signature)
Banco de Crédito Centroamericano