

**Technical Note**

**Supply-Side  
Assessment of  
Financial Inclusion  
in Paraguay**



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# Acronyms

ACH	Automated Clearing House
ADEFI	Asociación de Entidades Financieras del Paraguay (Association of finance companies)
AFD	Agencia Financiera de Desarrollo
AML	Anti-Money Laundering
ANDE	Administración Nacional de Electricidad (National Administration of Electricity)
ASOBAN	Asociación de Bancos (Association of banks)
ATM	Automatic Teller Machine
ATS	Automated Transfer System
BCP	Banco Central de Paraguay
BNF	Banco Nacional de Fomento
CAH	Crédito Agrícola de Habilitación
CCT	Conditional Cash Transfer
CDA	Certificado de Depósito de Ahorro (Certificate of Deposit)
CENCOPAN	Central de Cooperativas del Área Nacional Ltda.
CNV	Comisión Nacional de Valores (Securities Commission)
CONATEL	Comisión Nacional de Telecomunicaciones (National Telecommunication Commission)
CONPACOP	Confederación Paraguaya de Cooperativas (Paraguayan Confederation of Cooperatives)
Co-op	Cooperative
DGEEC	Dirección General de Estadística, Encuestas y Censos (National Statistic, Surveys, and Census Office)
DNCP	Dirección Nacional de Contrataciones Públicas (National Procurement Office)
EIF	Encuesta de Inclusión Financiera (Survey on Financial Inclusion)
E-money	Electronic money
EMPES	Entidades de Medios de Pago Electrónico (Companies that provide electronic payments)
EPH	Encuesta Permanente de Hogares (National Household Survey)
FAS	Financial Access Survey
FSAP	Financial Sector Assessment Program

G2P	Government to Person
IFC	International Finance Corporation
IMF	International Monetary Fund
INCOOP	Instituto Nacional de Cooperativismo (National Institute of Cooperativism)
INMU	Instituto Nacional de Mutuales (National Institute of Mutuals)
IPS	Instituto de Previsión Social (Paraguayan Social Security Institute)
KYC	Know Your Client
LAC	Latin America and the Caribbean
MFI	Microfinance Institution
MNO	Mobile Network Operator
MSMEs	Micro, Small and Medium Enterprises
NGO	Non-Governmental Organization
NPL	Non-performing loans
NSA	Nuestra Señora de la Asunción
OTC	Over-the-counter
POS	Point of Sale
ROA	Return on Assets
ROE	Return on Equity
ROSCA	Rotating Savings and Credit Association
RTGS	Real Time Gross Settlement System
RUC	Registro Único del Contribuyente (Business registration)
SAS	Secretaría de Acción Social (Secretary of Social Action)
SEPRELAD	Secretaría de Prevención de Lavado de Dinero o Bienes (Secretary for the Prevention of Money Laundering)
SIM	Subscriber Identity Module
SME	Small and medium enterprises

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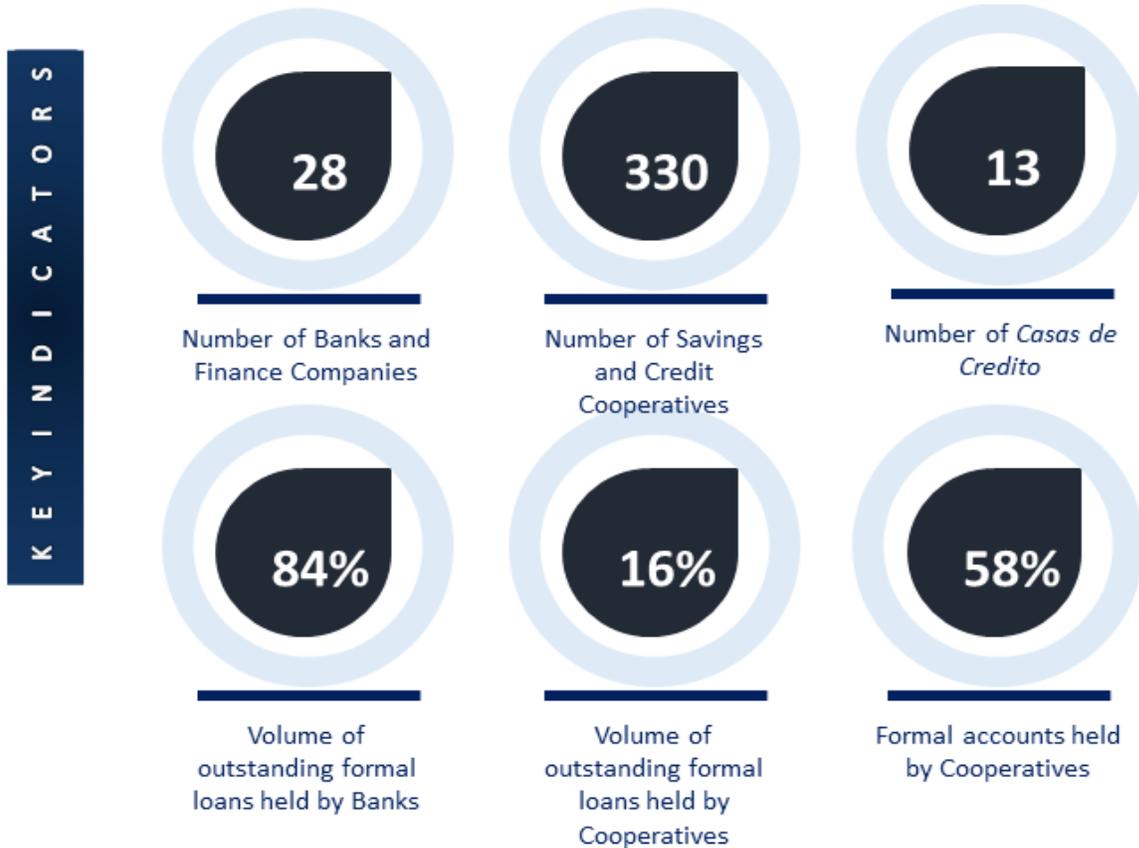
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# Executive Summary



Note: Number of formal accounts held by cooperatives is the number of cooperative members. Not all members necessarily have accounts.

This technical note presents the findings of a supply-side study of financial services in Paraguay. This note, together with two other technical notes (on the demand-side and on the legal-side), will help inform the Paraguayan national financial inclusion strategy. This study covers the current status of financial sector overall, products and services (savings, credit, payments, and insurance), and service providers, focusing mostly on formal providers, and to a lesser extent, semi-formal and informal service providers.

The Paraguayan financial sector has experienced continued growth in recent years. Outstanding bank (and finance company<sup>1</sup>) loans represent 39% of GDP in 2014, up from 12% in 2004<sup>2</sup>. Bank deposits represent 42.6% of GDP in 2014, up from 24% in 2004.<sup>3</sup> There are

<sup>1</sup> Throughout this note, unless otherwise noted, banks or the banking sector refers to both banks and finance companies as a general category.

<sup>2</sup> Source: Current data from BCP, based on current performing loans as of April 2014 and 2013 GDP. 2004 data from International Monetary Fund (IMF) Financial Access Survey (FAS). The IMF FAS data include banks and finance companies.

<sup>3</sup> Source: Current data from BCP, based on total deposits as of April 2014 and 2013 GDP. 2004 data from IMF FAS.

208 bank deposit accounts and 202 bank borrowers per 1,000 adults<sup>4</sup>. There are 10.25 bank branches and 23.31 bank ATMs per 100,000 adults.<sup>5</sup> Outstanding cooperative loans represent 8% of GDP<sup>6</sup>. Cooperative deposits represent 6% of GDP<sup>7</sup>. There are 291 members of savings and credit cooperatives per 1,000 adults<sup>8</sup>.

**There is a diverse set of entities providing financial services in Paraguay.** The formal financial institutions are banks, finance companies and cooperatives with savings and credit as their main activity. Semi-formal is defined as companies that are properly authorized to conduct business, but are not actively supervised from a financial perspective. Semi-formal players include *casas de credito*, prepaid medicine, etc. Informal players are those that are not legally recognized as any type of business or organization. While anecdotal evidence suggests that the semi-formal and informal sectors are in fact playing a consequential role in Paraguay, this technical note does not concentrate much on them mainly because data on the size and impact of this sector is still limited. More in-depth research in this area would be valuable.

**There are 16 banks, 12 finance companies, and 330 cooperatives whose primary business is saving and credit, and an additional 120 other cooperatives that provides financial services as a secondary activity operating in the country.** Cooperatives hold approximately 1,390,113 accounts<sup>9</sup> or 58% of all formal accounts in the country, while banks hold the remaining 42% of formal accounts, or 993,411 accounts<sup>10</sup>. Cooperatives hold 11% (or 7,210,111 million Gs.<sup>11</sup>) of the

outstanding deposits in the formal financial sector while banks hold 89% (or 60,917,592 million Gs.<sup>12</sup>). Cooperatives hold 16% (or 10,747,616 million Gs.<sup>13</sup>) of outstanding loans while banks hold 84% (or 56,148,363 million Gs.<sup>14</sup>).

**Rural areas of the country have limited physical presence of formal financial services.** Thirty-three percent (or 73 districts) of the 224 districts in the country do not have any bank or cooperative<sup>15</sup> presence whether through branches, bank agents or bank ATMs. The median population density of the districts with bank and/or cooperative<sup>16</sup> presence is 36.6 people per square kilometer and the median population density of the districts without bank or cooperative presence is 18.4 people per square kilometer. Sixty-nine of these 73 districts without bank or cooperative presence<sup>17</sup> have a population of more than 2,000 inhabitants, signifying a significant potential market for at least an ATM or bank agent. In terms of population, 75% of the country's population lives in a district with a bank branch. Taking into account cooperative branches, 83% of the population lives in districts with either a bank branch or cooperative branch.

**Bank presence in rural low physical access areas have the opportunity to increase rapidly through the use of bank agents, electronic money, and mobile financial services.** Banks could potentially benefit from the robust agent networks already developed by other types of financial service providers such as payment processing companies and mobile network operators to expand their service network with lower cost.

**The Central Bank of Paraguay (BCP) introduced new regulation on electronic payments in 2014<sup>18</sup>, which will introduce financial supervision of mobile network operators (MNOs) providing financial services such as transfers, payments and electronic**

<sup>4</sup> Source: BCP, based on data from April 2014.

<sup>5</sup> Source: IMF FAS data for 2013.

<sup>6</sup> Source: Outstanding loans from CONPACCOOP Cooperative Census 2012; GDP 2013 from BCP.

<sup>7</sup> Source: Total deposits from CONPACCOOP Cooperative Census 2012; GDP 2013 from BCP.

<sup>8</sup> Source: Number of members from CONPACCOOP Cooperative Census 2012; Adult population estimation, i.e. 15 years and older (4,781,821) from BCP.

<sup>9</sup> Source: INCOOP. This is the number of members of financial cooperatives as of December 2013. The actual number of accounts is not monitored; however, for the purposes of this study, the number of cooperative members is used as an approximate for the number of accounts. The actual number of accounts may be more or less, as members may hold more than one account but other members may not maintain any deposit account at all.

<sup>10</sup> Source: BCP as of July 2014.

<sup>11</sup> Source: INCOOP. Data as of December 2013

<sup>12</sup> Source: BCP Bulletin April 2014

<sup>13</sup> Source: INCOOP. Data as of December 2013

<sup>14</sup> Source: BCP Bulletin April 2014

<sup>15</sup> Type A or Type B cooperatives that provide saving and credits as a primary activity

<sup>16</sup> Type A or Type B cooperatives that provide saving and credit as a primary activity. Presence of bank branch, ATM and/or agent or cooperative branch.

<sup>17</sup> Presence of bank branch, ATM and/or agent or cooperative branch.

<sup>18</sup> Resolution 6, BCP. March, 2014.

**wallets.** Two mobile network operators, Tigo and Personal, provide these services. Tigo performs approximately 2 million transactions per month. Approximately 150,000 clients pay bills using Tigo Money. Personal has 23,124 bank-backed Billetera Personal accounts<sup>19</sup> (and another 62,796 non-bank e-wallet clients<sup>20</sup>). Because of the extensive agent networks and the pervasiveness of cellphones in the country, the use of electronic wallets has potential to increase financial inclusion significantly. Nonetheless, uptake has been slow and the vast majority of transactions are still over the counter.

**Availability of low cost saving products at the formal financial institutions is very limited.** The available saving products require high minimum balances and an array of service fees. The median minimum balance to open an ordinary savings account (*ahorros a la vista*) at a sample of 20 of the 27 financial entities supervised by the BCP is 750,000 Gs. which is 42% of the monthly minimum wage set in Paraguay<sup>21</sup>. The median penalty for a balance below the minimum is 33,000 Gs. Cooperatives on the other hand do not have a minimum balance on their savings accounts, but they do have monthly maintenance fees. Hence, low-income people who wish to save do not have many opportunities to do so through formal financial institutions. At the same time, informal means of savings (such as rotating savings and credit associations, or ROSCAs) are not widespread. As a result, most low income “savers” save in cash at home. Other identified ways of saving informally include through the purchase of livestock or goods.

**Basic (also called simplified) savings bank accounts could potentially tap into this gap in the savings market.** The regulation encouraging banks to offer these low-value bank accounts with simplified opening procedures was introduced by BCP in 2013<sup>22</sup>. These basic accounts offer a limited set of transactions per month, but can be opened with only a national ID with no minimum balance and no monthly maintenance fee. By introducing this new type of account, the BCP aims at facilitating greater financial inclusion for economically

marginalized populations in the country. As of September 2014, six financial institutions had applied for and received approval from the BCP to offer such saving account. Uptake of this product has been surprisingly slow especially considering the perceived interest by the banking community in the basic bank account regulation before it was passed. The BCP should open a dialogue with banks and the associations (ASOBAN and ADEFI) specifically to solicit feedback and to understand why the market has not taken up the product more. The BCP should also reach out to these financial institutions to raise awareness about possible business models and market opportunities (for example the findings of the EIF survey) for offering these accounts.

**Anecdotal evidence suggests consumer over-indebtedness is a problem; however financial sector figures suggest it is not systemic and not affecting large segments of the population.** Consumer credit grew by 24.5% in 2013<sup>23</sup> and anecdotal evidence suggests that there are certain segments of the population which are over-indebted. However, the rate of non-performing loans (NPLs) remains low (2.5 percent in banks<sup>24</sup>) and only 4 percent of borrowers are obtaining loans from more than one source<sup>25</sup>, which suggests that if there is a problem of over-indebtedness, it is not systemic and not affecting large segments of the market. The lack of a robust credit information bureau continues to result in asymmetric information in the market which hinders responsible lending and financial inclusion. Moving forward it will be important to improve the measurement and monitoring of over-indebtedness and the unregulated credit markets.

**Loans to microenterprises, on the other hand, are still insufficient.** Only 27% of all small and microenterprises (formal and informal) have loans<sup>26</sup> and only 16% of agriculture microenterprises (formal and informal) have loans<sup>27</sup>. The products available in the market are generally not designed to respond to the needs of the typical microenterprises in Paraguay, in terms of, for example, convenience, physical proximity,

<sup>19</sup> Data provided by Personal May 2014

<sup>20</sup> Provided by BCP June 2014

<sup>21</sup> The minimum wage in Paraguay since March 2014 is around 1.8 million Gs or \$411 USD per month

<sup>22</sup> Resolution No. 25, BCP. June 18, 2013.

<sup>23</sup> BCP 2014

<sup>24</sup> BCP 2014

<sup>25</sup> EIF 2013

<sup>26</sup> DGEEC, Economic Census 2011

<sup>27</sup> Red de Microfinanzas, Actualización del Estudio “Oferta y Demanda de Microfinanzas con Alcance Rural”, 2013. Data from 2008.

and payment terms. Microenterprises also tend to be informal and often do not have the required documentation such as their business registration (RUC, for its acronyms in Spanish), record of tax payment, and up to three years of credit history. Of the microenterprises that do have loans, cooperatives provide loans to 70% of urban microenterprises<sup>28</sup> and 27% of the loans to microenterprise farms<sup>29</sup>. Lending to small and microenterprises could be expanded through the implementation of new products, such as leasing and factoring, and improved financial infrastructure, such as a collateral registry and reformed credit information systems.

**Insurance coverage is still low in the country.** There appears to be a significant unmet demand for micro-insurance products, agriculture insurance, and medical insurance. Coverage is especially low in rural areas and among low-income populations. Currently, 48% of insurance premiums in the country are for auto insurance and 12% of the premiums are for life insurance.<sup>30</sup> The Paraguayan Association of Insurance Companies should work with the Superintendence of Insurance to conduct a market feasibility study on micro-insurance. This would raise awareness among the insurance companies and authorities and would be a first step towards introducing new products in the market to satisfy the unmet demand for insurance by low-income segments of the population

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<sup>28</sup> UNDP, *Microfinanzas en Paraguay: Analisis de la Oferta y la Demanda*. 2010.

<sup>29</sup> UNDP, *Microfinanzas en Paraguay: Analisis de la Oferta y la Demanda*. 2010, based on data from *Agriculture Census 2008*

<sup>30</sup> Luque Portela, Miguel Angel. *Situacion del Mercado Asegurador del Paraguay*. 2013

# Introduction

**The purpose of this Technical Note is to provide a snapshot of the financial sector in Paraguay and the state of financial inclusion from the perspective of the supply side, i.e. the availability and provision of financial services and products across different institutions.** This study builds on the Financial Sector Assessment Program (FSAP) report of 2011<sup>31</sup> and reviews primarily the formal institutions that provide financial services in the country. However, to the extent possible, based on available data, this Note also provides insights into the semi-formal and informal financial sectors.

**This Technical Note is one of three Technical Notes developed by the World Bank with the purpose of informing the Paraguayan National Financial Inclusion Strategy.** Together, these Technical Notes will provide an assessment of the current state of financial sector in general and of financial inclusion in the country. The findings of these studies will help identify market gaps, binding constraints, unmet demand, and other opportunities to help mobilize the sector towards a more inclusive financial system.

**This study of the supply side is based on a desk review of existing materials on the financial sector in Paraguay and interviews and dialogues with financial sector practitioners, during two field missions of approximately 10 days each, including two visits to rural areas in Caaguazú and San Pedro.** During the missions, meetings were conducted with formal financial entities such as banks, finance companies, and cooperatives, public entities such as Crédito Agrícola de Habilidadación (CAH), Banco Nacional de Fomento (BNF), and Agencia Financiera de Desarrollo (AFD), semi-formal financial entities such as *casas de crédito* and mobile network operators, and finally beneficiaries of rural development projects. For a full list of interviews see Annex A.

**This study has benefited from findings of the other two technical notes.** Legal and demand-side information included in this note are presented here to provide additional perspective and enhance the reader's understanding of the supply-side findings. For more

information on these other dimensions, the other two notes should be consulted.

**The first section of this Note provides an overview of the landscape of the financial sector and the following sections are organized along financial services and products.** The products and services are organized as: 1. Savings and investments, 2. Credit, 3. Payments, and 4. Insurance and Pensions. Topics around alternative credit products and the credit information bureau are discussed in the section on credit, electronic money is discussed in the payments section, and pensions are discussed with insurance.

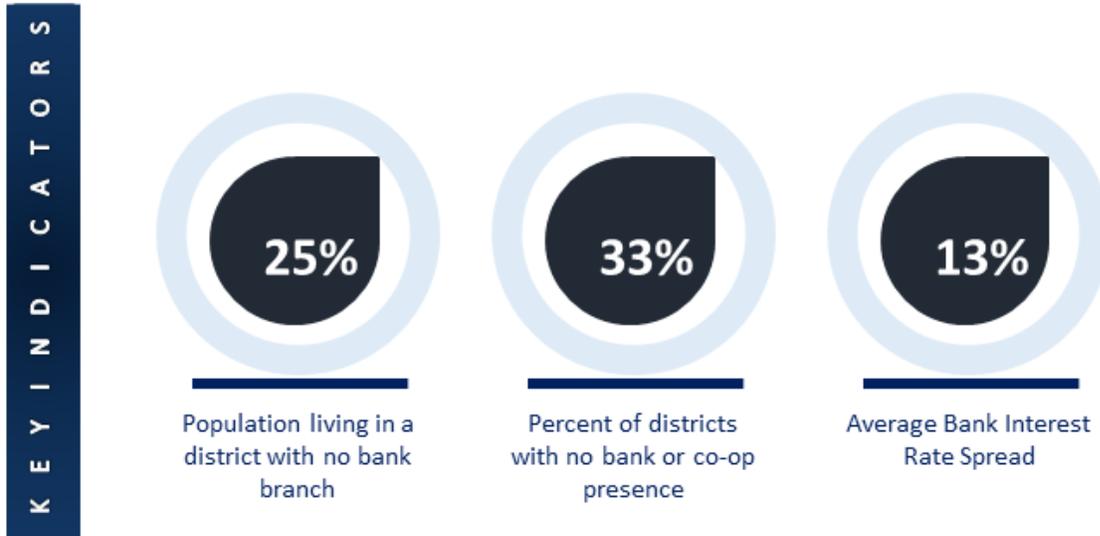
## LIMITATIONS OF THIS STUDY

**The information presented in this Note is based on the data that was available at the time.** Some data availability was constrained, particularly for the semi-formal and informal providers. Aggregated data on the semi-formal and informal, and even to a certain extent the cooperative, sectors were somewhat limited which in a number of cases has led to findings having to be based on anecdotal evidence (these findings are noted as such).

**In-person interviews and data collection during the missions provided critical inputs to this study.** The findings from this Technical Note rely heavily on the information and data provided by the various interviewees. While every effort was made to meet with all relevant actors in the sector, it is possible that this Note could have benefited from other perspectives not captured during the field missions.

**As this study provides a broad view of the entire financial sector (as it relates to financial inclusion), it should be complimented by more in-depth research on particular products and services of interest.**

<sup>31</sup> IMF, FSAP Report, May 10, 2011  
[https://www.bcp.gov.py/userfiles/files/Informe%20FSAP-Actualizacion\\_de\\_Evaluacion\\_de\\_la\\_Estabilidad\\_del\\_Sistema\\_Financiero.pdf](https://www.bcp.gov.py/userfiles/files/Informe%20FSAP-Actualizacion_de_Evaluacion_de_la_Estabilidad_del_Sistema_Financiero.pdf)



In recent years, the Paraguayan financial sector has continued to expand both in depth and outreach. In the last decade since a period of financial instability between 1996 and 2003, the Central Bank of Paraguay (BCP) has taken strides to increase the stability and outreach of the financial sector through measures such as a deposit insurance and new regulations on electronic payments, correspondent banking, and simplified bank accounts (basic accounts).

Nonetheless, the Paraguayan Financial Inclusion Survey 2013 (EIF) found that only 29% of the adult population has an account at a formal financial institution, which places Paraguay below the population-weighted average for Latin America (39%).

## FINANCIAL SECTOR PLAYERS

Financial services in Paraguay are provided by a diverse set of formal, private, public, semi-formal, and informal entities. Formal vs. informal categorizations are often used when measuring financial inclusion to capture the nuanced nature of what it may mean to be financially included or excluded. The ways in which institutions and services are categorized from formal to informal vary from country to country and even within a country depending on the perspective. For the

purposes of this Technical Note, the categories are defined in general as: 1. Formal are entities that are supervised by the BCP, INCOOP or other financial regulatory authorities, 2. Public entities are those owned by the government of Paraguay, 3. Semi-formal are those entities that are authorized to conduct business, but whose provision of financial services is not actively supervised by any appropriate financial authority, and 4. Informal entities are those that are not legally recognized.

Table 1 and 2 provide a brief description of the various financial services providers working in Paraguay. Refer to Annex C for an overview of the different entities.

**Table 1: Number of financial service providers**

Entities	Number of companies
<b>FORMAL INSTITUTIONS</b>	
Private Banks <sup>32</sup>	15
Finance Companies	12
Public Financial Institutions <sup>33</sup>	4
Cooperatives whose primary business is saving and credit <sup>34</sup>	330
Cooperatives that offer saving and credit as a secondary business <sup>35</sup>	29
Insurance Companies <sup>36</sup>	35
Public pension institutions	8
Brokerage Firms <sup>37</sup>	7
Mobile Network Operators with Electronic Payments <sup>38</sup>	2
<b>SEMI-FORMAL INSTITUTIONS</b>	
<i>Casas de Credito</i> <sup>39</sup>	13
Pawnshops <sup>40</sup>	349
Non-profit MFIs / NGOs <sup>41</sup>	2
Prepaid Medicine <sup>42</sup>	64
International and domestic money transfer service providers and Payment Processing Companies <sup>43</sup>	9
<i>Cajas Mutuales</i> <sup>44</sup>	11

Source: Unless otherwise indicated, BCP

<sup>32</sup> Does not include BNF

<sup>33</sup> This includes Banco Nacional de Fomento, Crédito Agrícola de Habilitación, Fondo Ganadero and Agencia Financiera de Desarrollo (second tier bank). SENAVITAT, the governing body for general housing policy created in 2010, is not included in this group.

<sup>34</sup> CONPACCOOP Cooperative Census 2012

<sup>35</sup> CONPACCOOP Cooperative Census 2012

<sup>36</sup> Superintendence of Insurance Financial Indicators, February 29, 2014

<sup>37</sup> Bolsa de Valores de Asuncion

<sup>38</sup> Under the new electronic payments regulation, two companies are in the process of being analyzed as potential electronic payment companies (EMPES)

<sup>39</sup> Source: DGEEC, Censo Económico Nacional 2011. The official number of *casas de credito* is not monitored.

<sup>40</sup> Source: DGEEC, Censo Económico Nacional 2011. Only six pawnshops are registered with SEPRELAD, but numerous pawn shops are not registered. The official number of pawn shops is not monitored.

<sup>41</sup> Interview with Red de Microfinanzas

<sup>42</sup> Source: Superintendence of Health

<sup>43</sup> Source: SEPRELAD. These are the entities registered with SEPRELAD, not including banks, cooperatives or foreign exchange companies. This can include payment processing companies, international remittance service providers, money transfer operators, etc. Many of these service providers that are neither banks, cooperatives, nor foreign exchange companies are not supervised by any authority. The introduction of the new electronic payments regulation will increase supervision of these entities.

<sup>44</sup> Source: DGEEC, Censo Económico Nacional 2011. Although by law *cajas mutuales* are supposed to be supervised by a national institute of mutuals (INMU for its acronym in Spanish), this institution has not yet been created and therefore the official number of *cajas mutuales* in Paraguay is still not available. In the meantime, it is anticipated that a new law will be passed at the end of 2014 creating a Pension Superintendence.

**Table 2: Financial Service Providers**

Services	Formal-Private	Formal-Public	Semi-Formal	Informal
Savings and Investments	<ul style="list-style-type: none"> <li>• Banks</li> <li>• Finance Companies</li> <li>• Cooperatives</li> <li>• Brokerage Firms</li> </ul>	<ul style="list-style-type: none"> <li>• Banco Nacional de Fomento (BNF)</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Cajas Mutuales</i></li> </ul>	<ul style="list-style-type: none"> <li>• Saving at home (in the form of cash, livestock or goods)</li> <li>• ROSCAs (called <i>ruedas</i> in Paraguay)</li> </ul>
Loans	<ul style="list-style-type: none"> <li>• Banks</li> <li>• Finance Companies</li> <li>• Cooperatives</li> </ul>	<ul style="list-style-type: none"> <li>• BNF</li> <li>• <i>Fondo Ganadero</i></li> <li>• <i>Crédito Agrícola de Habilitación</i> (CAH)</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Casa de Credito</i></li> <li>• Non-profit MFIs</li> <li>• Commercial Stores</li> <li>• Cajas Mutuales</li> <li>• Pawn Shops</li> </ul>	<ul style="list-style-type: none"> <li>• Moneylenders</li> <li>• Middlemen</li> </ul>
Insurance and Pensions	<ul style="list-style-type: none"> <li>• Insurance Companies</li> </ul>	<ul style="list-style-type: none"> <li>• National Social Security (Eight institutions<sup>45</sup> in total, the two major ones being <i>Instituto de Previsión Social – IPS-</i> and the <i>Caja Fiscal</i>)</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Cajas Mutuales</i></li> <li>• Cooperatives<sup>46</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Community groups</li> </ul>
Payments, Transfers & Remittances	<ul style="list-style-type: none"> <li>• Banks</li> <li>• Finance Companies</li> <li>• Cooperatives</li> <li>• MNOs</li> <li>• Foreign Exchange Companies</li> </ul>	<ul style="list-style-type: none"> <li>• BNF</li> </ul>	<ul style="list-style-type: none"> <li>• Non-bank money transfer operators</li> <li>• Non-bank remittance service providers</li> <li>• Payment Processing Companies<sup>47</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Cash payments and transfers in person</li> </ul>

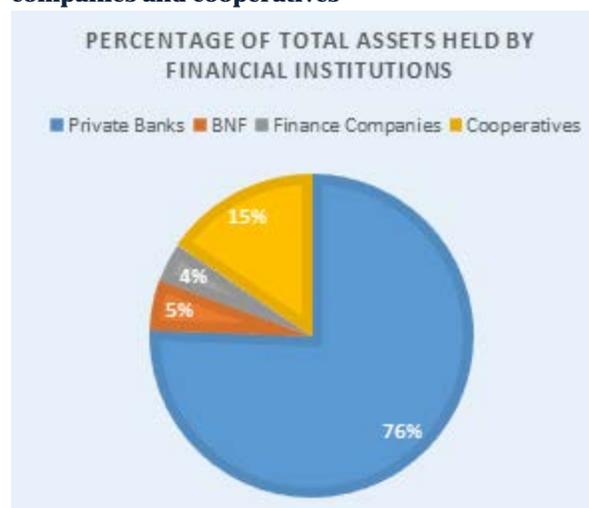
Source: Author's own classifications

<sup>45</sup> *Instituto de Previsión Social* (IPS), the pension system administered by the *Ministerio de Hacienda (Caja Fiscal)*, the system for bank employees (*Caja de Jubilaciones y Pensiones de Empleados Bancarios del Paraguay*), the system for municipal employees (*Caja de Jubilaciones y Pensiones del personal Municipal*), the system for members of the legislature (*Fondo de Jubilaciones y Pensiones para miembros del Poder Legislativo*), the system for railroad workers (*Caja de Seguros Sociales de Empleados y Obreros Ferroviarios*), the system for employees of the national electricity company Administración Nacional de Electricidad (ANDE) (*Caja de Jubilaciones y Pensiones del Personal de la ANDE*) and the system for employees of the national hydroelectric dam ITAIPU Binacional (*Caja Paraguaya de Jubilaciones y pensiones de la ITAIPU Binacional*)

<sup>46</sup> Categorized here as semi-formal providers of insurance refers to the *solidaridad* service provided to members. *Solidaridad* service refers to a program in which most savings and credit cooperatives require their associates to participate. For a nominal monthly fee, associates are paid a certain amount for specific life events, such as someone in the family dying, the birth of a child, sickness, or graduation of a child, thus providing a form of coverage for common economic shocks that people may experience.

<sup>47</sup> These companies work through a wide array of agents, including public and private banks.

**Figure 1: Relative assets held by banks, finance companies and cooperatives**



Source: Bank data from BCP Bulletin February 2014; Cooperative data from Cooperative Census 2012

## Banks

There are 16 banks registered in Paraguay and regulated by the Superintendence of Banks in the BCP. Of these, there are three foreign banks with branches in Paraguay, four foreign-owned banks operating in Paraguay, eight local banks, and one public bank (Table 3). Private banks hold about 76% of the assets in the market (versus Banco Nacional de Fomento, finance companies, and cooperatives)<sup>48</sup> (Figure 1).

The average return on asset (ROA) of the banks (excluding finance companies) at the end of 2013 was 2.40% and return on equity (ROE) 30.07%<sup>49</sup>. Compared with its peers in the region, Paraguay has a relatively high ROA (Figure 2).

Despite having one of the consistently lowest inflation rates in the region, Paraguay has continued to have one of the highest bank interest rate spreads in Latin America. (Figure 2) In 2012, the interest rate spread was 13.2%<sup>50</sup>. Evidence suggests that the spread could decrease by lowering the operating costs of the banks, reducing the risk premium through improved credit information, and increasing competition in the market. Using quarterly data from 2000 to 2012, the IMF

<sup>48</sup> Source: Bank data from BCP Bulletin February 2014; Cooperative data from CONPACCOOP Cooperative Census 2012.

<sup>49</sup> BCP, as reported to the World Bank 2014

<sup>50</sup> <http://data.worldbank.org/indicator/FR.INR.LNDP>

(2014) found that increases in the banking concentration have actually led to a slight decrease in interest rate margins, indicating that in the Paraguayan market greater concentration in the banking system has not had a negative impact on competition. This study<sup>51</sup> found that while the relationship between credit risk (as measured by NPL) and the interest rate spread was positive, the impact of the NPL was found to be relatively small. At 2.5% in the banking sector,<sup>52</sup> the NPL in Paraguay is one of the lowest in the region, indicating that credit risk in the country is relatively low (Figure 2). In this paper, the IMF also cites research that suggests that high information costs in the financial intermediation process is indeed a key factor behind the high interest rate margins in the country. This study also found substantial operating inefficiencies that appear to drive spreads up. Lack of liquidity can often drive interest rate spreads, but that does not appear to be a factor in Paraguay. The banking sector is characterized by high liquidity rates, even compared with its peers in the region (Figure 2). As of April 2014, 58.82% of bank (and finance company) assets were loans<sup>53</sup> and the rest were primarily liquid resources held in central bank accounts<sup>54</sup>.

Together with finance companies, banks hold 42% of the deposit accounts in the country, but 89% of deposits in volume. Banks and finance companies also hold 84% of the loans in volume. Table 3 lists all of the banks and financial companies in the market. Not even considering cooperatives, the market players are numerous. While at the time of this report, there were no indicators of competition in the market available (the BCP was in the process of calculating the Herfindahl Index), evidence suggests that there is competition in the market. For example, the largest share of assets in the market is held by Banco Itaú, but its share is still only 16.4%. Banco Continental has the largest share of loans (17.8% of the market) and Banco Itaú holds the largest share of deposits (16.2% of the market). The total assets held by the three largest banks was 50.7% in 2011<sup>55</sup>, which is less of a concentration of assets than in other countries in the region (Figure 2).

While there are state-owned financial institutions discussed later in this section, the role of government in the banking system is mainly confined to that of the regulator. The ministries and

<sup>51</sup> IMF, Paraguay: Country Report No. 14/61 Selected Issues. February 2014.

<sup>52</sup> BCP 2014

<sup>53</sup> BCP calculation provided June 20, 2014

<sup>54</sup> IMF, Paraguay: Financial System Stability Assessment – Update, 2011 states that the assets not lent are held in central bank accounts.

<sup>55</sup> Source: Bankscope – Bureau Van Dijk

other public institutions keep their deposits in various banks, depending on their needs.

## *Finance Companies*

**There are 12 finance companies (*financieras*) registered in Paraguay and regulated by the Superintendence of Banks in BCP.** Finance companies are similar to banks in that they are under a similar regulatory framework. The main legal difference is that finance companies have a lower capital requirement and are not allowed to offer checking accounts to clients or perform securitization of loans. In practice, finance companies and banks do not differ significantly. One noted difference is in the market perception and the typical clientele. Finance companies tend to offer more products catering to lower-income people and they tend to have greater outreach to lower-access areas than banks. However, this does not always hold true. Finance companies hold about 4% of the assets in the market<sup>56</sup>. (Figure 1)

**The average ROA of the finance companies at the end of 2013 was 2.24% and return on equity (ROE) 18.99%<sup>57</sup>.**

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<sup>56</sup> Source: Bank data from BCP Bulletin February 2014; Cooperative data from CONPACCOOP Cooperative Census 2012

<sup>57</sup> BCP, as reported to the World Bank 2014

**Table 3: Banks and Finance Companies in Paraguay**

Banks	Total Assets (millions of Gs) <sup>58</sup>	% of total	Total Loans <sup>59</sup>	% of total	Total Deposits <sup>60</sup>	% of total	Number of Branches	Number of ATMs	Number of Agents	Authorized for Simplified Accounts
<b>Foreign Banks with Local Branches (3)</b>										
<i>Citibank N.A.</i>	1,971,570	2.3 %	245,096	0.5 %	1,079,741	1.7 %	0	4		
<i>Banco Do Brasil S.A.</i>	1,288,585	1.5 %	494,696	1.0 %	732,688	1.2 %	1	12		
<i>Banco de la Nación Argentina</i>	450,662	0.5 %	282,437	0.6 %	336,942	0.5 %	3	1		
<b>Foreign-Owned Banks (4)</b>										
<i>Banco Itaú Paraguay S.A.</i>	13,985,541	16.4 %	7,760,511	15.1 %	10,014,125	16.2 %	28	286	37	◆
<i>Sudameris Bank S.A.E.C.A.</i>	4,439,491	5.2 %	2,952,997	5.8 %	3,277,544	5.3 %	19	77		◆
<i>Banco Bilbao Viscaya Argentina S.A.</i>	8,595,593	10.1 %	5,598,164	10.9 %	6,305,766	10.2 %	20	43		
<i>Banco GNB Paraguay S.A.</i>	3,433,931	4.0 %	2,160,693	4.2 %	2,911,458	4.7 %	6	17		
<b>Locally-Owned Banks (8)</b>										
<i>Banco Regional S.A.E.C.A.</i>	13,593,228	15.9 %	8,133,328	15.8 %	9,943,389	16.1 %	28	92		
<i>Banco Amambay S.A.</i>	2,140,487	2.5 %	796,208	1.6 %	1,724,473	2.8 %	9	2		
<i>Banco Continental S.A.E.C.A.</i>	13,636,554	16.0 %	9,124,171	17.8 %	9,230,858	14.9 %	55	122		◆
<i>Visión Banco S.A.E.C.A.</i>	4,454,358	5.2 %	3,163,301	6.2 %	3,243,602	5.2 %	80	115		◆
<i>Banco Itapúa S.A.E.C.A.</i>	1,338,528	1.6 %	970,875	1.9 %	1,010,914	1.6 %	21	14		
<i>Banco Familiar S.A.E.C.A.</i>	2,780,485	3.3 %	2,021,001	3.9 %	2,148,317	3.5 %	36	45	88	
<i>Banco Atlas S.A.</i>	3,026,062	3.5 %	1,833,518	3.6 %	2,453,829	4.0 %	28	26		
<i>Bancop S.A.</i>	793,933	0.9 %	407,962	0.8 %	638,332	1.0 %	4	6		
<b>State-Owned Bank (3)</b>										
<i>Banco Nacional de Fomento (BNF)</i>	4,904,058	5.7 %	1,939,229	3.8 %	3,662,669	5.9 %	51	163		pending

<sup>58</sup> Source: BCP Boletín May 2014 unless noted otherwise

<sup>59</sup> Source: BCP Boletín May 2014

<sup>60</sup> Source: BCP Boletín May 2014

Fondo Ganadero	104,815	0.1 %	85,560	0.2 %	0	0.0 %	5	0		
Credito Agricola de Habilitacion	317,245 <sup>61</sup>	0.4 %	113,957 <sup>62</sup>	0.2 %	0		54	0		
<b>Finance Companies (12)</b>										
Crisol y Encarnacion Financiera	333,293	0.4 %	264,667	0.5 %	235,242	0.4 %	10	4		
Financiera El Comercio	840,472	1.0 %	673,735	1.3 %	601,603	1.0 %	34	1	187	♦
Finexpar	224,997	0.3 %	171,597	0.3 %	141,365	0.2 %	2	0		
Financiera Santa Ana	70,005	0.1 %	66,205	0.1 %	43,420	0.1 %	2	0		
Financiera Paraguayo Japonesa	339,414	0.4 %	267,496	0.5 %	280,117	0.5 %	4	0		
Financiera Rio	417,310	0.5 %	355,482	0.7 %	324,238	0.5 %	6	1		
Finlatina	91,716	0.1 %	70,741	0.1 %	50,520	0.1 %	1	0		
Interfisa	880,129	1.0 %	692,493	1.3 %	696,792	1.1 %	40	31		♦
Solar	503,969	0.6 %	409,891	0.8 %	425,316	0.7 %	12	1		
Tu Financiera	145,186	0.2 %	125,210	0.2 %	117,234	0.2 %	No data	0		
Ara Finanzas	231,928	0.3 %	146,388	0.3 %	211,124	0.3 %	9	0		
FIC S.A.	No data available		No data available		No data available		No data available	No data available	No data available	
<b>TOTAL</b>	<b>85,333,545</b>	<b>100 %</b>	<b>51,213,652</b>	<b>100 %</b>	<b>61,841,618</b>	<b>100 %</b>	<b>568</b>	<b>1,055</b>	<b>312</b>	<b>6</b>

Source: Unless otherwise noted, data in this table provided by BCP, updated May 2014. Total and percentages are author's own calculation.

<sup>61</sup> CAH Balance Report, May 30, 2014

<sup>62</sup> CAH Balance Report, May 30, 2014

**Figure 2: Bank Spread and Other Characteristics of the Banking Market in Paraguay<sup>63</sup>**



<sup>63</sup> Comparison countries are countries in Latin America and the Caribbean region with similar population and GDP per capita. Countries included in graphs: PRY (Paraguay), BOL (Bolivia), ECU (Ecuador), HND (Honduras), NIC (Nicaragua), SLV (El Salvador). Lending-Deposit Spread Source: IMF International Financial Statistics, Annual Inflation Source: World Bank Data, Return on Asset Source: Bankscope – Bureau Van Dijk, Liquid Assets Source: Bankscope – Bureau Van Dijk, NPL Source: IMF International Financial Statistics, 3-Bank Asset Concentration (Total assets of the three largest banks as a percentage of all commercial banks) Source: Bankscope – Bureau Van Dijk

## Public Sector Financial Institutions

### Banco Nacional de Fomento (BNF)

Founded in 1961, BNF was created with the objective of developing the economy by promoting and financing broad development programs as well as specific projects that strengthen agriculture, cattle, forestry, industry, and the commercialization of other Paraguayan products and materials. BNF is a deposit-taking public bank regulated by the Superintendence of Banks within the BCP. BNF has 51 branch offices and 15 customer attention centers<sup>64</sup> and offers a variety of savings and loan products, including some targeted at microenterprises. BNF processes the majority of salary payments for public employees as well as beneficiaries of other government transfer programs. BNF is a mid-size player in the market. BNF holds approximately 5% of the assets in the market (versus private banks, finance companies, and cooperatives)<sup>65</sup> (Figure 1). As of June 2014, BNF had assets of 4,904,058 million Gs., which places it in the 5<sup>th</sup> position among banks and finance companies, 3,664,572 million Gs. in deposits placing it in 5<sup>th</sup> position, and 1,839,209 million Gs. in outstanding loans to the private sector, placing it in 9<sup>th</sup> position<sup>66</sup> (Table 3).

**BNF is less efficient than its private sector counterparts.** BNF maintains an exceptionally high liquidity rate. The ratio of available assets plus temporary investments to deposits in BNF is 76%, while among private sector banks (not including finance companies) the ratio is 47%<sup>67</sup>. BNF also supports high personnel and administrative costs. The ratio of personnel expenses to deposits at BNF is 3.4% compared to 2.2% among the private sector banks (not including finance companies). Administrative costs are 6.3% of deposits at BNF compared to 4.9% among private sector banks<sup>68</sup>.

**As BNF is a public bank, it is closely tied with the government.** Five of the eight Board members are representatives of government institutions and the other three are representatives of rural and agriculture associations. There is no independent representation on the Board. Having independent financial sector experts or professionals on the Board could help reorient BNF

towards improving its efficiency and performance as a financial institution, which would position BNF to contribute to financial inclusion in a sustainable manner.

**Because of the significant role it plays in the government payments (salary and welfare payments), BNF is well-positioned to contribute to financial inclusion through the promotion of simplified bank accounts (it is in the process of introducing this product) and by leveraging its extensive geographical network presence.** Of all the banks and finance companies, BNF has the third greatest number of branches (behind Vision Banco and Banco Continental) and the second greatest number of ATMS (behind Banco Itau) (Table 3). It also has a good physical outreach in rural areas of the country through its branch network in which 92% of their branches and 77% of their ATMs are outside of Asuncion. BNF could significantly increase the banking system's effective outreach in remote areas if its ATMs were interoperable with those of the private banks. Currently BNF's ATMs and POSs, which are built on the BEPSA (Dinelco) platform, are not interoperable with those of the private banks which are built on the Bancard (Infonet) platform. This same extensive network could be utilized to support electronic payment and transaction services from government to persons and government to business payments (discussed later in the report.)

### Credito Agricola de Habilitacion (CAH)

**Founded in 1951, CAH is an independent entity with the goal of providing credit along with technical and organizational assistance to low-income rural agricultural producers, which may include rural artisans that work out of their homes.** CAH is the main institution focused on assistance to small farmers in the country. CAH gives preference to working with cooperatives, associations and other types of organizations that are not able to access financial services from other financial institutions. In accordance with the Law 551/75, CAH is an independent organization whose relationship with the executive power is through the Ministry of Agriculture. As of June 2014, CAH has 54 points of service<sup>69</sup> throughout the country. It is not allowed to receive deposits.

**CAH provides a range of loan products tailored to specific populations (such as indigenous, youth, women) and/or agricultural products (such as yucca, sesame, etc.).** As of June 2014, CAH has 44,490 active

<sup>64</sup> BNF website, accessed September 2014.

<sup>65</sup> <http://www.bnf.gov.py/sucursales.php>

<sup>66</sup> Source: Bank data from BCP Bulletin February 2014; Cooperative data from CONPACCOOP Cooperative Census 2012

<sup>67</sup> BCP Bulletin June 2014

<sup>68</sup> BCP Bulletin May 2014

<sup>69</sup> BCP Bulletin May 2014

<sup>69</sup> Data provided by Ministerio de Hacienda

clients<sup>70</sup>. While CAH's portfolio is relatively small (only 0.4% of the banking sector's assets and 0.02% of the credit) (Table 3), there is evidence that the institution is filling an important gap that private financial institutions do not fill. According to the Agricultural Census of 2008, CAH was the most prominent lender to family-based farms; of the family-based farms that reported having loans, 35% of them had loans from CAH.

**While it appears to be successfully reaching traditionally under-served populations, CAH faces multiple challenges that may influence its long-term viability as a financial institution.** The profile of its portfolio is considered risky because of its concentration in a single volatile sector. The vast majority of CAH's funding is in foreign currency, which exposes the institution to the risk of foreign currency fluctuation. CAH's NPL is known to be extraordinarily high because of a political decision to forgive a significant portion of CAH's loan portfolio. To date, CAH has not been able to address these loans that were forgiven but continue on the institution's books. The result has been an inflated NPL that does not accurately reflect the performance of the current loan portfolio. Another result has been that after more than a decade, the former CAH clients whose loans were forgiven still have the unpaid loans on their credit record, thus making it difficult for them to move on and borrow from other financial institutions. CAH should seek measures to accurately reflect the state of these loans.

**CAH has a potential to contribute to financial inclusion in Paraguay by continuing to reach out to new populations that are unable to access loans from other institutions and to innovate new products such as factoring that can sustainably create new credit opportunities for micro and small enterprises.** As banks and finance companies begin to reach "down market" to attend to small rural producers typically serviced by CAH, it will be important for CAH to continue focusing on bridging the market gap and working with clients that are not attended to by formal financial institutions due to low financial literacy, geographic isolation, informality, or other barriers. CAH's role should be one of facilitating the financially excluded into the formal financial sector. CAH should push its clients to

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<sup>70</sup> Data provided by Ministerio de Hacienda

eventually leave the CAH system and move on to borrow from other commercial financial institutions. Maintaining clients who have become credit-worthy through their relationship with CAH results in crowding-out of private sector players rather than contributing to financial inclusion. CAH should make an effort to resolve the issue of the forgiven loans, which would help financial inclusion by clearing the past clients' credit record and by allowing CAH to accurately report its NPL. While it is important for CAH to improve its operational efficiency and professionalism as a financial institution, it should also be recognized that as long as CAH serves the under-served segments of the population, this institution should not be held to the same standards of operational efficiency as its other financial sector counterparts.

### *Fondo Ganadero*

**Founded in 1969, Fondo Ganadero is an independent entity that provides a variety of loans specific to small (21 to 100 head of cattle), medium (101 to 1000 head of cattle) and large (greater than 1000 head of cattle) cattle enterprises.** The goal of Fondo Ganadero is to promote and finance plans, projects, and other industrial activities related to the production of livestock. Like CAH, Fondo Ganadero is an independent organization whose relationship with the executive power is through the Ministry of Agriculture. According to the modifications of the Fondo Ganadero Law made in 2007<sup>71</sup>, this institution is allowed to accept deposits from the public subject to authorization from the Superintendence of Banks. Therefore, Fondo Ganadero is subject to the same supervision by the BCP as any other deposit-taking financial institution<sup>72</sup>. The main source of funding is from AFD (product PROCAMPO, which is described later in this section) and the Inter-American Development Bank.

**Fondo Ganadero has only approximately 600 clients.** Its reach is limited by availability of funds.<sup>73</sup> Fondo Ganadero offers a range of short, medium and long-term loan products, and loan repayment can be from monthly

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<sup>71</sup> Law 3359 November 7, 2007

<sup>72</sup> To date, Fondo Ganadero has not been authorized to take deposits.

<sup>73</sup> According to the interview with Fondo Ganadero, there is significant unmet demand for loans, but Fondo Ganadero does not have the liquidity to meet this demand.

to annually. While about 85% of their funding goes to small and medium enterprises,<sup>74</sup> it is unclear if the clients of Fondo Ganadero would have been served by traditional institution, which are increasingly able and willing to serve these more established producers. According to the Agricultural Census of 2008, of the medium to large agricultural firms that reported having loans, 6% of them had loans from Fondo Ganadero. Less than 1% of family-based farms with credit had credit from Fondo Ganadero.

**Fondo Ganadero faces institutional challenges that can affect its ability to grow and reach more clients in the long run.** Similar to BNF, Fondo Ganadero's Board is made up of primarily government representatives, with no independent members. Similar to CAH, Fondo Ganadero's portfolio is relatively high risk because of its concentration in a single volatile sector, which is reflected in its relatively high NPL of 8.93%<sup>75</sup>. Fondo Ganadero also has high administrative and personnel costs compared to its private sector counterparts. Fondo Ganadero's ratio of personnel costs to administrative costs is 80%, while for banks (not including finance companies) this ratio is 45%<sup>76</sup>. Fondo Ganadero's ratio of personnel costs to operating margin and administrative costs to operating margin is 130% and 163%, respectively, compared with banks at 24% and 53% respectively<sup>77</sup>.

**Fondo Ganadero is providing services to a segment of the population that is also being served by the private sector.** It is not clear if Fondo Ganadero is actually correcting a market failure. Fondo Ganadero should be cautious to not introduce a distortion in the credit market and crowd-out commercial providers. Fondo Ganadero's contribution to financial inclusion could possibly be in innovating new products such as leasing, a product that this institution is currently looking into and that would be appropriate for its clientele.

<sup>74</sup> Source: Interview with Fondo Ganadero  
<sup>75</sup> BCP, Boletín May 2014  
<sup>76</sup> BCP, Boletín May 2014  
<sup>77</sup> BCP, Boletín May 2014

## *Agencia Financiera de Desarrollo (AFD)*

**Founded in 2005, AFD is an independent organization created by Law 2640 whose relationship with the executive power is through the *Ministerio de Hacienda*.** AFD is the only public second tier bank in Paraguay. AFD provides loans to 13 banks, nine finance companies, and 19 cooperatives<sup>78</sup>. AFD's mission is to promote economic development and the creation of employment through channeling financial resources to the private sector.

**AFD offers a range of long-term financing in the form of 13 distinct loan products offered to banks, finance companies, and cooperatives:** MICASA for new construction of homes, purchase of home, remodeling of homes (up to 20 years), MI PRIMERA CASA for lower income families constructing a new home or purchasing a home (up to 20 years), MICREDITO for micro and small enterprises (up to 12 years), PROPYMES for small and medium enterprises (up to 10 years), PROCRECER for projects that invest in the country (up to 12 years), PROCAMPO for projects that invest in cattle (up to 12 years), FIMAGO for financing agriculture machinery (up to six years), PROEDUC to finance post-graduate education (up to 10.5 years), PROFORESTAL for commercial reforestation (up to 12 years), PROCOCOOP for associates of productive cooperatives (up to 12 years), PMCR for rural microcredit (up to five years), PROINFRA for infrastructure projects (up to seven years) and PROREGADIO for implementation of new agriculture irrigation systems (up to 12 years). AFD's largest investments in value are channeled through MICASA (34% in 2014 through June), PROCRECER (27% in 2014 through June) and FIMAGO (19% in 2014 through June)<sup>79</sup>. By sector, the largest investment in value is in real estate and agriculture. In 2014, as of June, 41% of the volume of loans approved was designated to real estate and another 34% was designated to agriculture<sup>80</sup>. During this same timeframe, 85% of approved loans were channeled through banks, 3% through financial companies, 7% through Type A savings and credit cooperatives, and 5% through Type A productive

<sup>78</sup> AFD website, <http://www.afd.gov.py/ifis>  
<sup>79</sup> AFD. *Informe Estadístico de aprobaciones de créditos*. June 2014  
<sup>80</sup> AFD. *Informe Estadístico de aprobaciones de créditos*. June 2014

cooperatives.

**AFD is most well-known in the market for its contribution to housing loans.** Its contribution to micro small and medium enterprises (MSME) financing has been relatively small. Funding for MICREDITO and PROPYME made up only 1.7% and 5.4% of the value of funding approved in 2014 through June, respectively. AFD suggests that demand for these products is low among the institutions working with AFD. However, anecdotal evidence suggests that there is still unmet demand for long-term financing for micro and small enterprises. The problem is that some of the smaller savings and credit cooperatives are the institutions that are best positioned to channel funding to micro and small enterprises, but they do not qualify to work with AFD. Of its cooperative clients, AFD primarily works with Type A cooperatives. When determining whether or not to work with a new cooperative, AFD evaluates the cooperative through a mix of quantitative and qualitative indicators, reviewing characteristics such as financial performance as well as governance structure. AFD's main innovation is in long-term financing, but AFD could perhaps also explore other ways to support the credit market through new products such as factoring, leasing and credit guarantees. Nonetheless, from June 2006 through June 2014, AFD has served 39,031 clients, approving more than \$727 million USD during this time, which has resulted in 84,432 direct employments and 116,584 indirect employments<sup>81</sup>.

**AFD has five Board Members who are appointed by the Executive Power, which does not allow for clear independence between the institution and the government.** Nonetheless, being the newest public financial institution, AFD is modern and is performing relatively efficiently. Moving forward, a challenge for AFD will be securing new source of funding in local currency. A viable source for this funding could be through long-term bonds in local currency. A client for such bonds could be the public pension funds.

**AFD could contribute to financial inclusion by promoting its long-term financing for rural and other MSMEs, and by working with more financial institutions that serve MSMEs.** AFD has a unique

market niche in comparison to the other public sector banks in Paraguay. Its focus on providing long-term financing to financial institutions could potentially benefit MSME producers which often have difficulty in accessing finance through the commercial banks. Additionally, aside from AFD, sources of long-term financing for micro and small enterprises is extremely scarce in the market. AFD should make an effort to promote its products that serve MSMEs and should also seek to enable even more financial institutions that reach down market to access its funding.

### *Cooperatives (Saving and Credit Cooperatives)*

**In Paraguay there are 450 cooperatives in total<sup>82</sup>.** Cooperatives can be either specialized or multipurpose. According to the activities performed, they are classified as saving and credit cooperatives, production cooperatives, and other cooperatives (consumption, labor, services, housing, etc). All cooperatives are regulated by the National Institute of Cooperativism (INCOOP). The Cooperative Law (438/1994) allows cooperatives to provide financial as well as non-financial services to members.

**Of the 450 cooperatives, 330 or 73% identify saving and credit as their primary economic activity.** Cooperatives hold approximately 15% of the assets in the market (versus banks and finance companies)<sup>83</sup> (Figure 1). An additional 29 cooperatives identify savings and credit as a secondary economic activity. This second group includes for example productive cooperatives that provide loans to their members. Therefore a total of 359 cooperatives offer financial services. Of the 330 cooperatives offering financial services as their primary activity, only 26 have more than 10,000 members. The majority of cooperatives have less than 500 members (Figure 3). This technical note discussion focuses on cooperatives offering saving and credit as a primary activity.

**INCOOP has recently revised its regulatory framework for cooperatives offering financial**

<sup>81</sup> AFD. *Informe Estadístico de aprobaciones de créditos*. June 2014

<sup>82</sup> Source: CONPACCOOP Cooperative census 2012

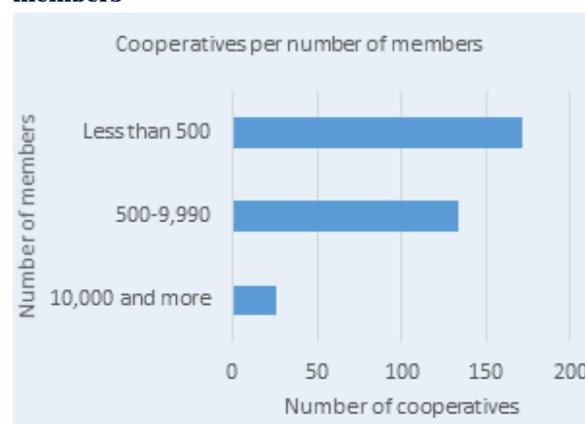
<sup>83</sup> Source: Bank data from BCP Bulletin February 2014; Cooperative data from CONPACCOOP Cooperative Census 2012

services.<sup>84</sup> The new regulation came into effect in January 2014 and will be fully implemented during the next two years. The new regulations introduce requirements that will strengthen the cooperatives and ensure greater stability and oversight. The new framework applies different regulations to cooperatives according to their size regarding financial assets. Cooperatives are organized into three types according to their size: Type A are cooperatives with over 50 million Gs. in assets, Type B have between 5 million Gs. and 50 million Gs., and Type C have less than 5 million Gs. Type A cooperatives will be the most rigorously supervised. These more demanding regulations will make it more difficult for new cooperatives to enter the market, and could possibly also cause some smaller cooperatives to close due to inability to comply with the new requirements, thus potentially helping to consolidate the cooperative market.

**Cooperatives tend to cater to lower income clients than the banking sector.** Cooperatives hold 58% of the formal deposit accounts in the country<sup>85</sup>, but only 11% of the deposits by volume and 16% of the loans by volume (Figure 4).

**There is not a lot of data on the financial performance of cooperatives.** Data on the smaller cooperatives (Type B and Type C) are especially scarce.

**Figure 3: Size of cooperatives by the number of members**

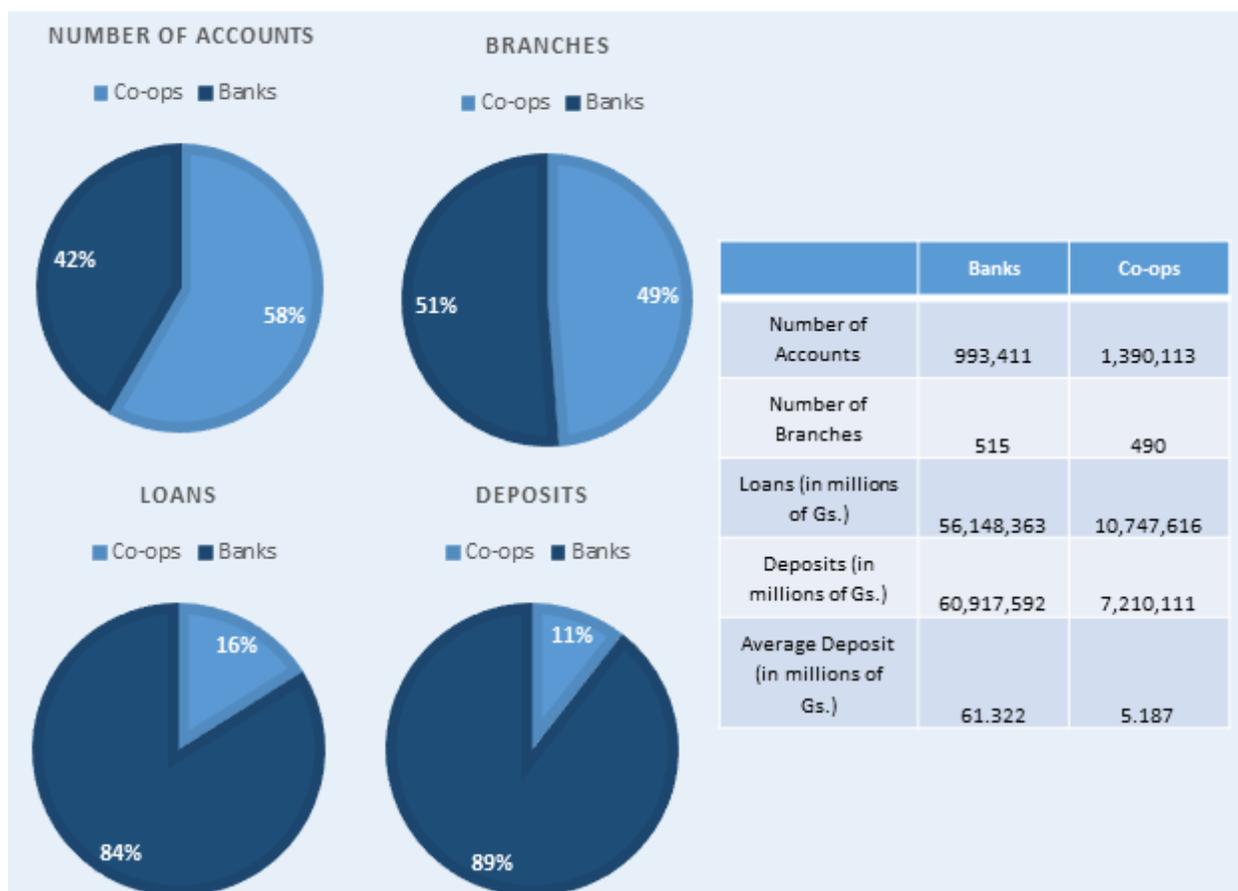


Source: CONPACOOP Cooperative Census 2012

<sup>84</sup> Resolution 11,102/13 of INCOOP

<sup>85</sup> This is the number of members of savings and credit cooperatives as of December 2013. The actual number of accounts is not monitored; however, for the purposes of this study, the number of cooperative members is used as an approximate for the number of accounts. The actual number of accounts may be more or less, as members may hold more than one account but other members may not maintain any deposit account at all.

**FIGURE 4: Comparison of Banks and Cooperatives**



Source: Data for banks is from BCP dated April 2014. Data from cooperatives is from INCOOP dated December 2013, except number of branches which is from CONPACOP Cooperatives Census 2012. The category of "banks" in this figure also includes finance companies data.

## Insurance Companies

There are 35 insurance companies<sup>86</sup> in Paraguay regulated by the Superintendence of Insurance which is part of the BCP. In 2013, 342.4 million USD were collected in premiums and 155.2 million USD were paid in claims. With nearly half (48%) of the premiums collected in 2013, auto insurance is the largest insurance market. The second largest insurance market is life insurance with 12% of the premiums.<sup>87</sup>

## Stockbrokers

There are seven registered stock brokerage firms in

Paraguay, providing investment services. The country's stock exchange (Bolsa de Valores y Productos de Asuncion, S.A.) and these brokerage firms are regulated by the Comisión Nacional de Valores (CNV).

## Mobile Network Operators

There are four Mobile Network Operators (MNOs) in Paraguay, regulated by the National Telecommunications Commission (CONATEL). The market is dominated by Tigo and Personal, who together own 87% of the market. Claro and Vox make the remainder of the market. Tigo and Personal are the only MNOs who have applied for authorization from the BCP to be electronic payment companies (EMPES)<sup>88</sup>. Each company offers their clients

<sup>86</sup> Superintendence of Insurance Financial Indicators, February 28, 2014

<sup>87</sup> Source: Luque Portela (2013)

<sup>88</sup> Authorization was still pending as of June 2014

payment services as well as different variations of stored-value electronic money accounts.

## Public Pensions

The public pension system is decentralized with eight institutions making up the public pension system in Paraguay: *Instituto de Previsión Social (IPS)*, the pension system administered by the *Ministerio de Hacienda (Caja Fiscal)*, the system for bank employees (*Caja de Jubilaciones y Pensiones de Empleados Bancarios del Paraguay*), the system for municipal employees (*Caja de Jubilaciones y Pensiones del Personal Municipal*), the system for members of the legislature (*Fondo de Jubilaciones y Pensiones para Miembros del Poder Legislativo*), the system for railroad workers (*Caja de Jubilaciones y Pensiones de Empleados y Obreros Ferroviarios*), the system for employees of the national electric company ANDE (*Caja de Jubilaciones y Pensiones del Personal de la ANDE*) and the system for employees of the national hydroelectric dam ITAIPU Binacional (*Caja Paraguaya de Jubilaciones y Pensiones de la ITAIPU Binacional*). The two primary pension institutions are the Caja Fiscal and the IPS. Generally, the Caja Fiscal serves public sector salaried employees and the IPS serves private sector salaried employees<sup>89</sup>. There are a total of 812,132 people in the pension program, 500,278 people covered by IPS and 311,854 covered by the Caja Fiscal<sup>90</sup>.

## Casas de Credito

According to data from the Economic Census (DGEEC 2011), there are 13 *casas de credito* in the country; however, as these institutions are not actively supervised, there is no official count of how many there actually are in the country. These companies provide a range of loan products. Most focus on consumer credit and personal loans. There is limited data on this group of credit providers. While by law, the interest rate may not exceed the maximum rate set by the BCP, these companies are not actively regulated and generally provide small loans at relatively high interest rates to low

<sup>89</sup> IPS does not cover bank employees, but also covers public employees of decentralized entities. The Law 4933/13 authorized the voluntary incorporation of independent workers, employers, housewives and domestic workers into the IPS pension system. (Source: Molinas Gwynn, et al. Estudios y Proyecciones Actuariales del Régimen de Jubilaciones y Pensiones del Instituto de Previsión Social).

<sup>90</sup> Data provided by the Ministerio de Hacienda, April 2014.

income individuals and micro-enterprises.

## Pawn Shops

According to Resolution No. 218, all pawn shops are required to register themselves with the Secretary for the Prevention of Money Laundering (SEPRELAD). There are only six pawn shops registered with SEPRELAD. However, according to data from the Economic Census (DGEEC 2011), there are 349 pawn shops in the country. Municipalities are responsible for regulating pawnshops. Pawn shops are businesses that offer loans to people, using personal property, such as electronics or jewelry, as collateral. The pawnshop returns the pawned item when the client pays back the loan plus the interest charged according to the duration of the loan. According to interviews during the field mission, loans can continue indefinitely if the person just continues to pay the interest on the loan. The maximum interest rate allowed is the maximum rate set by BCP; however, pawn shops are authorized to add on up to 50% of that rate as a fee to the customer to cover the pawn shops costs related to holding and maintaining the goods<sup>91</sup>. People use pawnshops primarily to fill an immediate and urgent, short term need, such as a family member getting sick or having to pay a utility bill.

## Non-Profit MFIs

There are two main non-governmental organizations (NGOs) in Paraguay that offer microcredit- Fundación Paraguaya and Fundación Microsol. These organizations provide a range of additional support to their beneficiaries such as financial literacy and business training, but they generally have relatively limited reach in the country. These NGOs are registered with the Ministry of Finance (*Ministerio de Hacienda*) and are not actively supervised as financial service providers.

## Prepaid Medicine

There are 65 prepaid medicine companies. These are generally the main providers of private medical "insurance" (this would be considered a type of quasi-insurance product since it is not supervised by the Superintendencia of Insurance). The larger prepaid

<sup>91</sup> Law 2283/03

medicine companies directly own and run hospitals and medical centers, while smaller prepaid medicine companies simply act as intermediaries between clients and medical service providers. They tend to cater to middle to upper income populations. Prepaid medicine serves approximately 500,000 beneficiaries, or about 7% of the Paraguayan population. Prepaid medicine is regulated by the Superintendence of Health within the Ministry of Health and Social Welfare and is therefore not actively supervised in the same way as other insurance companies in the country, which may present certain risks.

### *Money Transfer Operators*

Domestic money transfers are offered by a range of entities in Paraguay, some are regulated and others are not. Banks and cooperatives are regulated and often include these domestic person-to-person money transfer services as one of the financial services offered to their clients. MNOs are one of the main providers of money transfer services. Additionally there are transport and foreign exchange companies that also offer domestic transfer services that allow people to send and receive transfers to and from the companies' points of service.

### *Payment Processing Companies*

There are four major payment processing companies in Paraguay. Two, BEPSA (which provides services under the Dinelco brand) and Bancard (which provides services under the Infonet brand), focus on ATMs, debit cards and credit cards. BEPSA and Bancard ATMs and cards are not interoperable, which could be an opportunity to improve physical access to financial services, especially in low-access areas. The other two, PRONET S.A. (Aqui Pago) and NETEL S.A. (Pago Express), focus on providing physical points of service where customers can pay various types of bills.

### *International Remittance Companies*

International remittances are offered by a range of entities, some regulated and other not. Banks, cooperatives and foreign exchange companies are regulated and often include international remittance services as one of the financial services offered to their clients. Unregulated money transfer operators (though they may now be regulated under the new electronic

payments regulation<sup>92</sup>) include Western Union and MoneyGram. These two companies allow people in Paraguay to send and receive money abroad.

### *Cajas Mutuales*

*Cajas Mutuales* were created by Law 3472/2008 which states that these entities will be regulated by the National Institute of Mutuals (INMU). As of June 2014, *cajas mutuales* continue to be unregulated as the INMU had still not been created. These entities function as associations and offer pension products, long-term savings, and credit.

### *Commercial Stores*

Commercial stores enter into this study as a provider of financial services because based on anecdotal evidence and observations during the missions, home electronics stores (as well as possibly other consumer stores) offer purchases on credit. Some stores even offer the customer cash, in addition to the purchased goods, as well as credit cards. Although by law, the interest rate may not exceed the maximum rate set by the BCP, these stores are not supervised as providers of financial services and there is little data about them. However, Informconf, the main credit information bureau in Paraguay, reports that 15% and 12% of queries in May 2014 and June 2014 respectively were made by commercial stores.

### *Informal Service Provision*

Because of the low level of bank penetration, particularly in rural areas and with low-income populations, a large portion of Paraguayans employ an array of informal means to manage their financial lives. The informal financial services that were identified during this study are discussed later in their respective sections.

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<sup>92</sup> Resolution 6, Act 18, BCP

## THE FINANCIAL SECTOR IN PARAGUAY

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**The Paraguayan financial sector has continued to grow throughout the last decade.** Since 2004 outstanding loans as a percentage of GDP has increased from 12% to 39% in 2014<sup>93</sup>. Deposits have increased from 24% of GDP to 48% of GDP in 2014<sup>94</sup>. The number of deposit accounts and number of borrowers<sup>95</sup> have also increased from 53<sup>96</sup> deposit accounts per 1000 adults in 2005 (the earliest data available in IMF FAS) to 208<sup>97</sup> accounts per 1000 adults in 2013 and from 85<sup>98</sup> borrowers per 1000 adults in 2004 to 202<sup>99</sup> borrowers per 1000 adults in 2013<sup>100</sup> (Figures 5 and 6).

**Because savings and credit cooperatives are not regulated by the BCP and are not included in these bank figures, the statistics for outreach through branches and ATMs as well as the statistics on number of accounts are relatively low when compared with the other countries in Latin America and the Caribbean (LAC).** As discussed later, cooperatives hold a significant portion of formal financial sector clients and points of service, but banks (and finance companies)<sup>101</sup> still dominate the sector in terms of the volume of savings and loans. Therefore, despite the lack of cooperative numbers, the ratio of loans and deposits to GDP in Paraguay is still on par with its LAC peers (Figure 6).

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93 Data provided by BCP June 2014

94 Data provided by BCP June 2014

95 The BCP maintains data on unique borrowers, but does not do the same for savers. Deposit accounts are not consolidated by individual savers, so the number of deposit accounts includes people who have multiple accounts.

96 IMF FAS

97 Data provided by BCP June 2014

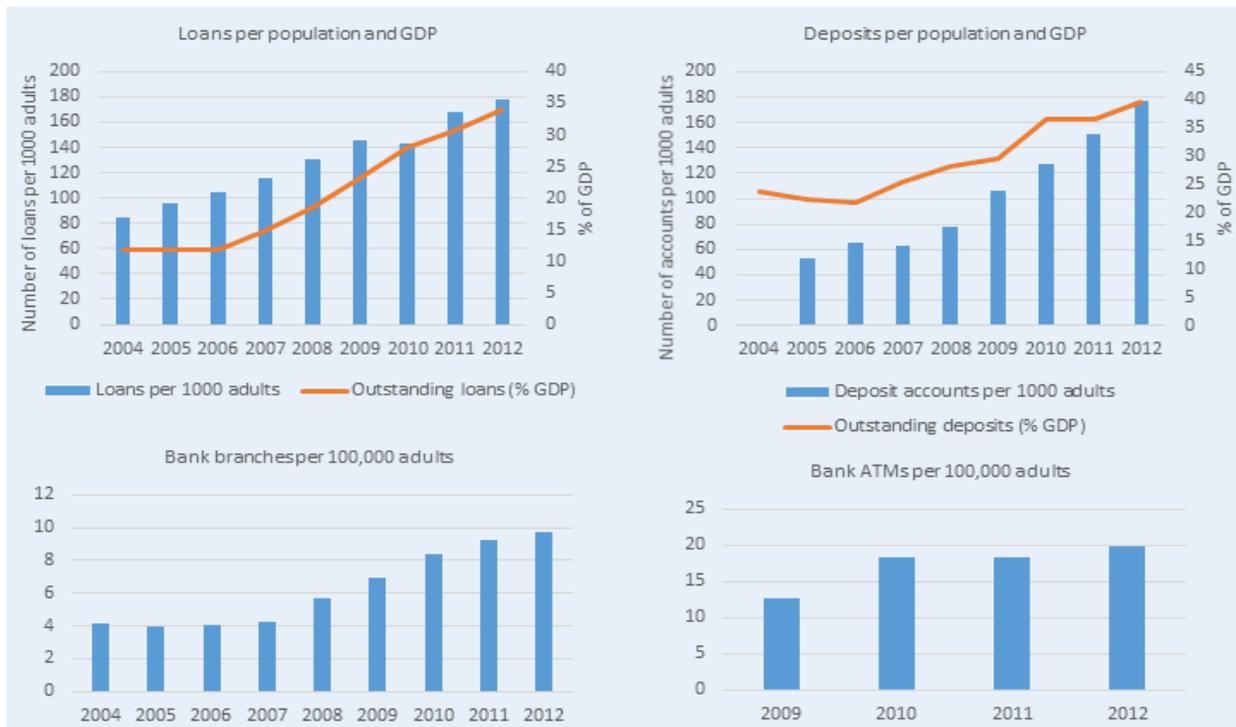
98 IMF FAS

99 Data provided by BCP June 2014

100 Data provided by BCP June 2014

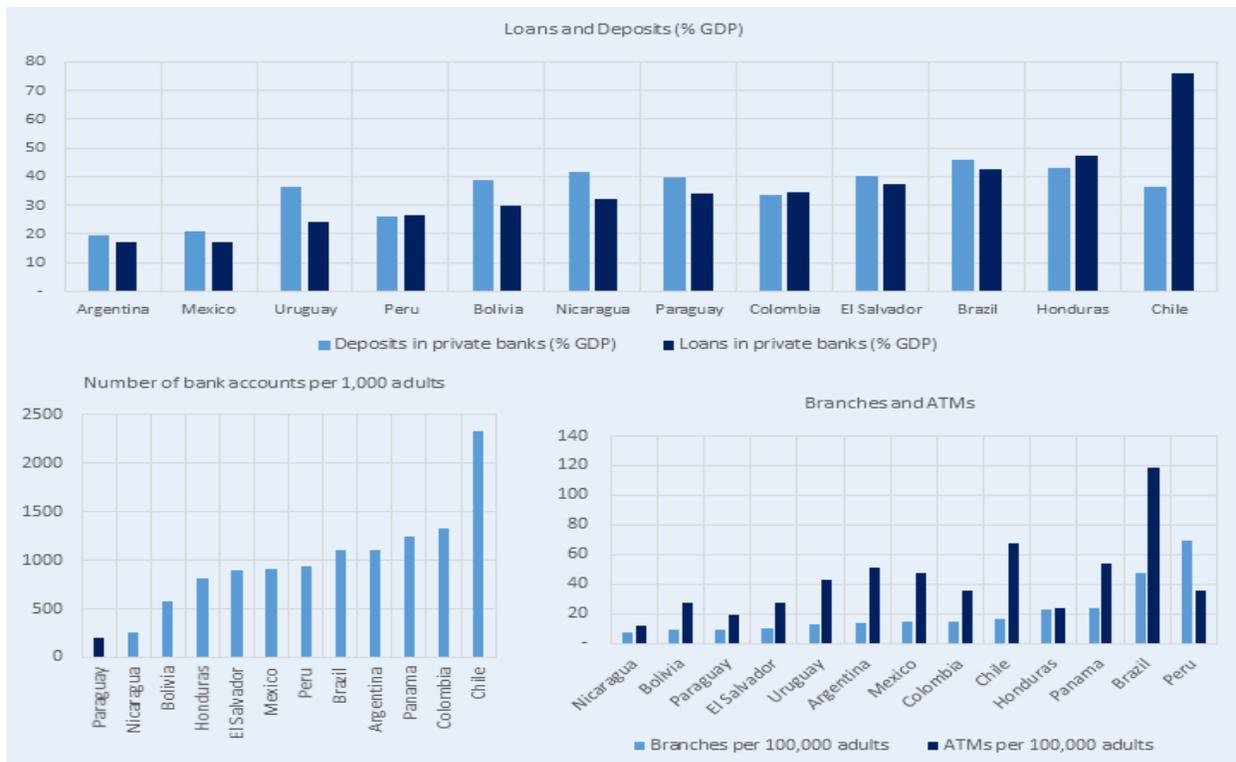
101 Unless otherwise noted, in this note the “banking sector” or “banks” will refer to both banks and finance companies as one group.

**FIGURE 5: Evolution of the Financial Sector in Paraguay**



Source: IMF FAS

**FIGURE 6: Financial Sector in Paraguay and Latin America**



Source: IMF FAS 2012; Paraguay number of bank accounts source: BCP April 2014, adult population DGEEC estimate for 2014

## PHYSICAL OUTREACH OF FINANCIAL SECTOR

Clients of banks, finance companies and cooperatives access and use bank services primarily at branch offices, but ATMs and agents are increasingly being used to expand financial institutions' physical presence. Clients can conduct any transaction at a branch, for example account opening, loan applications, deposits to an account, withdrawals from an account, loan withdrawal, loan payments, and account balance inquiry. At ATMs clients can usually only withdraw money from an account and consult their account balance. In Paraguay there are a total of 394 bank branches, 112 finance company branches, 300 Type A and B cooperative branches<sup>102</sup>, 1051 bank ATMs, and 312 agents<sup>103</sup> (Table 4). ATMs are often located within branches or directly outside of branches. Data on the exact distribution of ATMs by location (inside or outside of branches) is not available.

**Table 4: Number of points of service by provider**

	Branches	ATMs	Agents
<b>Private Banks</b>	339	851	125
<b>Public Banks</b>	55	163	0
<b>Finance Companies</b>	112	37	187
<b>Type A Co-ops</b>	208	No data	n/a
<b>Type B Co-ops</b>	92	No data	n/a
<b>TOTAL</b>	<b>806<sup>104</sup></b>	<b>1051</b>	<b>312</b>

Source: Bank and finance company data provided by BCP May 2014; Cooperative data provided by INCOOP July 2014

Sixty-seven percent of the 224 districts in the country (or 151 districts) have either a bank or cooperative (Type A or B) branch, ATMs and/or agents, which means that 33% of districts have no formal financial service presence. Of the 73 districts without bank or cooperative presence, 69 districts have a population of over 2,000, which implies that financial institutions may be interested in serving these areas. See Annex B for the complete list of districts that do not have bank coverage.

### The physical presence of banks and cooperatives is

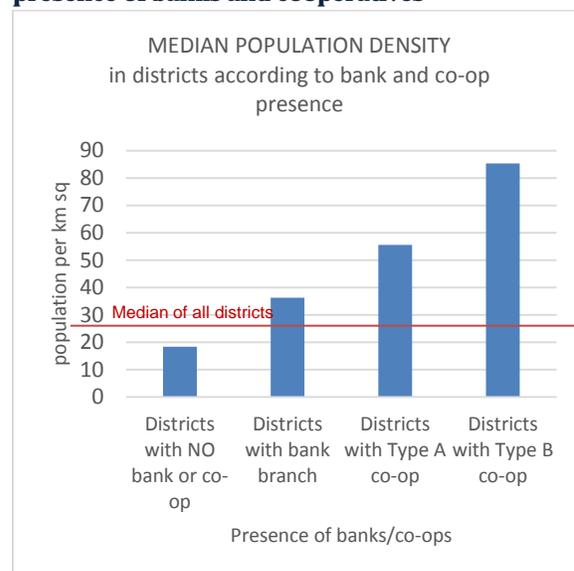
<sup>102</sup> Data provided by INCOOP

<sup>103</sup> Bank data provided by the BCP in May 2014

<sup>104</sup> According to the CONPACCOOP Cooperative census 2012, there are 490 cooperative branches. The data presented in this table represents only Type A and Type B cooperatives and was provided by INCOOP.

largely concentrated in urban centers throughout the country. This includes not only Asuncion and its immediate surrounding areas, but also urban centers throughout the interior of the country. The districts without bank presence do tend to be more sparsely populated than those with bank presence, which implies these districts are largely rural. The median population density of districts with no bank or co-op presence, i.e. no bank branch, co-op branch, bank agent or bank ATM, is 18.4, while the median population density of the districts with a bank branch is 36.3. Cooperatives appear to be even more concentrated in urban areas than banks. The median population density of the districts with a Type A cooperative is 55.7, and for districts with a Type B cooperative is 85.4 (Figure 7).

**FIGURE 7: Population density according to presence of banks and cooperatives**



Source: District population and physical area data from DGEEC June 2014. Bank presence data provided by BCP May 2014. Co-op presence data provided by INCOOP July 2014.

While they tend to serve more urban areas, Type A and B cooperatives have branches in 30 districts (or 13% of all 224 districts) where banks do not have a branch. Eight percent of the population lives in these districts served only by cooperatives.

Use of bank agents was authorized by the BCP in 2011<sup>105</sup>. Agents can make a significant contribution to financial inclusion by increasing the physical outreach of banks into low-access areas. Twenty percent of the districts in the country do not have a bank branch but are served by an agent; 10% of the population lives in these

<sup>105</sup> Resolution 1/11, BCP

districts (Figure 8).

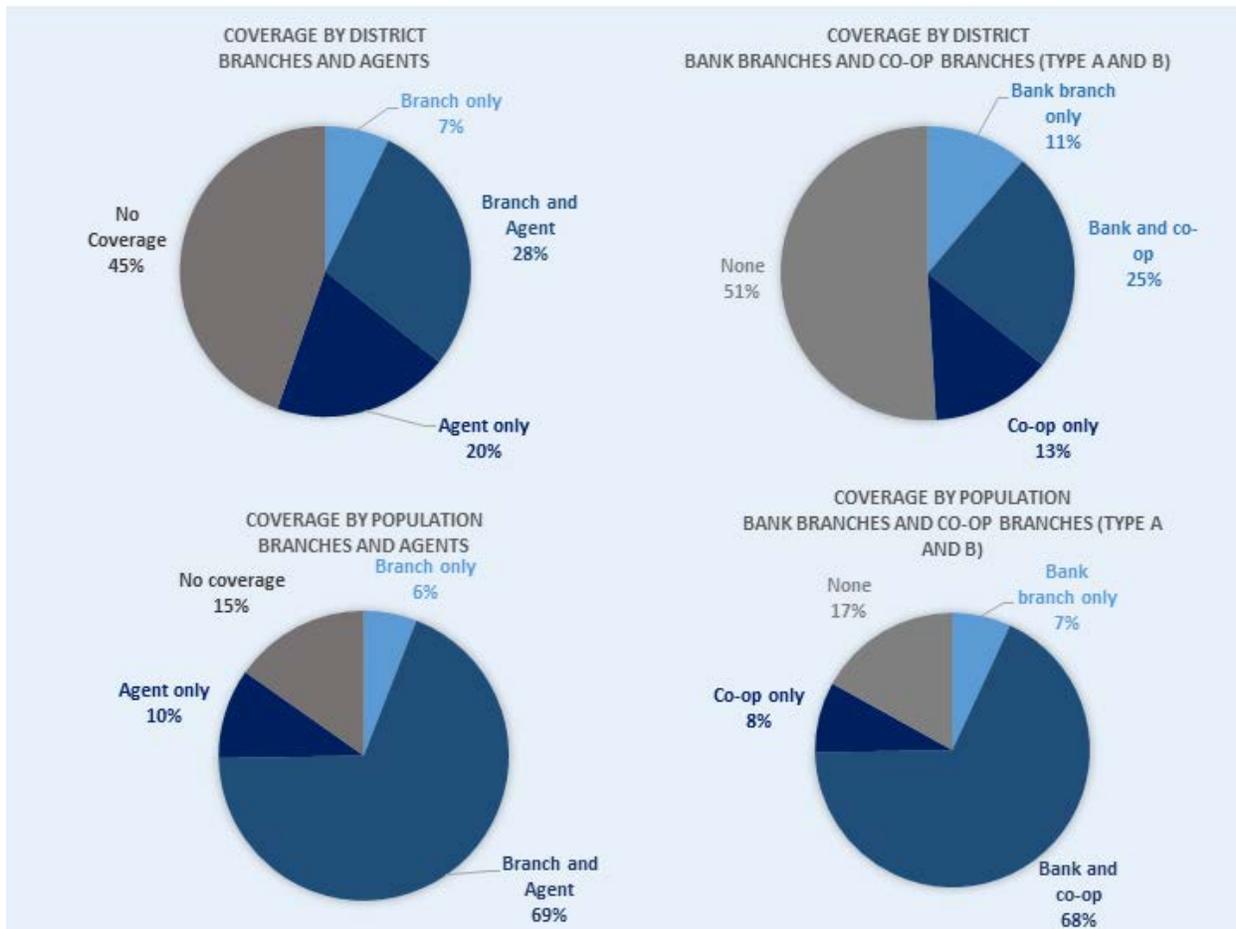
**Currently only three banks use agents, totaling 312 operating agents in Paraguay.** Working through agents, allow banks to increase their physical presence in low-access areas and allow them to ease customer traffic in areas where there is already a bank branch. There are costs implied with using agents. Apart from paying the agent for the services provided, banks must also absorb costs related to technology, capacity building, and the necessary logistics. Legally, agents can conduct loan disbursement and repayment, transfers, deposits and withdrawals, balance inquiry, transaction summary inquiry, payments, and low-risk account (which include simplified accounts, as well as other low-risk accounts as defined by criteria set by international AML principles) opening. However, in practice banks usually allow their agents to offer only a limited sub-set of these services. Offering different services implies different challenges for both the agent and the financial institution. For example, as agents are allowed to accept deposits, the bank will have to consider the agent's ability to manage the increased cash flow, the cost of dealing in cash, and the consolidation of deposits. To allow withdrawals, banks would have to implement measures to ensure that agents have enough cash on hand, which can introduce significant logistical challenges. To allow clients to apply for loans at agents, the banks would still have to ensure that the loan applications reach the bank office. To allow clients to open accounts through agents, the banks would have to take safeguards against identity theft.

**Legally, an agent can be an individual person or a legal entity, such as a business.** In practice they are independent businesses, small chain stores, pharmacies, foreign exchange companies, and other types of stores. Agents generally need a computer, printer, and an internet connection. Banks are allowed to work through third party agent managers, but it seems in practice banks are opting to manage and support their agents directly. The law does not prohibit exclusivity of agents, i.e. banks can contractually obligate agents to represent only them.

**One of the three entities using agents, states that the vast majority of the transactions at agents are payment of utility bills.** The value of the transactions made at agents varies from 1,000 Gs. to 5,000,000 Gs. Financial institutions normally pay their agents per transaction performed, and there is no additional cost to the client. To date, agents tend to offer a small range of services, but there seems to be interest in expanding the services that agents offer, which would certainly contribute to financial inclusion in the country.

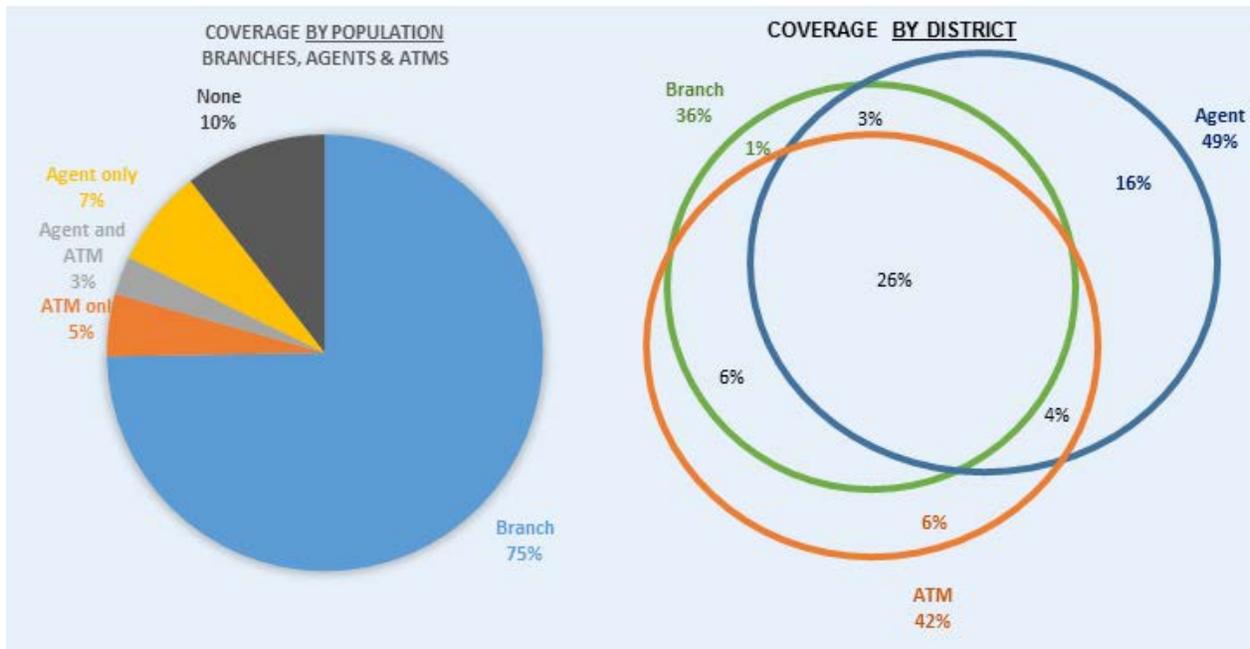
**With Resolution 11,102 of November 19, 2013 and its modification through Resolution 11,481 of February 6, 2014, cooperatives are now allowed to use any delivery channel (branches, agents, internet, and mobiles) with prior authorization from INCOOP which is determined on a case by case basis.** A few cooperatives already offer specific services through other cooperatives as a type of agent banking, but to date, this agent model is still very limited. With the new regulation, use of agents by cooperatives may increase.

**FIGURE 8: Coverage of bank and cooperative branches by districts and population**



Source: District bank presence from BCP (updated May 2014). District cooperative presence from INCOOP (updated July 2014). District population data from DGEEC (projections for 2014)

**FIGURE 9: Coverage of bank branches, agents, and ATMs by districts and population**



Note: Banks and finance companies are included in this analysis (cooperatives are not included).

Source: District bank presence from BCP (updated May 2014). District population data from DGEEC (projections for 2014)

The Venn diagram in Figure 9 illustrates how some districts are covered by multiple types of points of banking services (cooperatives are not included in this analysis), i.e. branches, agents and ATMs, while others rely solely on ATMs or agents. This demonstrates the impact that agents and ATMs can have on financial inclusion in areas where it is not feasible for banks to set up a branch office. Of the 224 districts<sup>106</sup> in Paraguay, only 80 (or 36% of all districts) have a bank branch. One hundred and eight districts (or 49% of all districts) have an agent; of these districts with an agent, 44 (20% of all districts) do not have a branch present. ATMs are usually located in or directly outside of bank branches. This helps banks ease demands on bank tellers and also extends the hours of customer service beyond normal office hours. However, banks sometimes install ATMs in places to expand their physical coverage. In 13 districts (6% of all districts), ATMs represent the only bank presence, i.e. there are no branches or non-

bank correspondents (Figure 9).

In terms of population, as illustrated in the pie chart in Figure 9, 75% of the country's population lives in a district with a bank (and/or finance company) branch. Agents extend coverage to districts representing another 10% of the population. Five percent of the population lives in districts with only an ATM and 10% of the population live in districts with no bank presence at all (Figure 9).

Figure 10 illustrates the physical distribution of bank branches, agents, and ATMs (cooperatives are not included). The dark green shading indicates a district with a bank branch; the light green indicates a district with an agent but without a branch. Yellow indicates a district whose only bank presence is through an ATM. Orange indicates a district without any bank presence, neither branch nor agent nor ATM. The map illustrates the important role that agents and ATMs play in physical access to financial services by the large portions of the country colored in light green and yellow. It is important to note, however, that currently the types of transactions

<sup>106</sup> District and population data was provided by DGEEC. Populations by district are DGEEC projections for 2014.

and services offered by agents and ATMs are extremely limited compared those that a person can receive at a branch. The map also illustrates the variation in the districts' physical size. For the larger districts, even with a point of service, it would be difficult to determine if the people living in that district indeed have adequate access given the far distance one may have to travel to an access point (Figure 10).

**In other countries such as Mexico, regulators<sup>107</sup> have performed similar analysis to identify the districts in the country that may have unmet demand for financial services.** The financial service providers were often not aware of the existing market opportunities outside of the urban centers. Monitoring the physical presence of financial services by district could not only help to measure progress made against the national financial inclusion strategy, but may also serve as a useful market research tool that can itself promote financial inclusion.

## CONCLUSION

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**The Paraguayan financial sector is composed of numerous and diverse actors.** While there are many formal sector entities, the number of semi-formal and informal entities is unknown and their financial activities are not monitored. Authorities should make an effort to better track the activities of *casas de credito*, pawnshops, and commercial stores that issue credit. This would allow for a more accurate picture of financial inclusion in the country and allow authorities to monitor the potential risk of over-indebtedness.

**The interest rate spread in Paraguay is one of the highest in the region.** Banks should make an effort to improve their operational efficiency which would allow them to offer more competitive and accessible interest rates to their clients.

**The state-owned financial institutions in Paraguay can potentially contribute to the financial inclusion agenda.** It is important to ensure that they are indeed filling a gap in the market and helping clients move on to private financial institutions, rather than distorting the market and crowding out the other market players. AFD particularly has potential to increase access to finance by MSMEs by promoting its MSME products and continuing to engage, and engaging more, with financial institutions that reach down market. BNF's wide branch and ATM

network can be amplified and leveraged by i) making its platform interoperable with private banks to increase effective outreach to the rural segments of Paraguay ii) utilizing this wide network to channel government payment transfers and transactions. CAH should resolve the issue of the unpaid loans that continue to inflate its NPL. CAH should also focus on providing innovative products on factoring and leasing or micro and small enterprises.

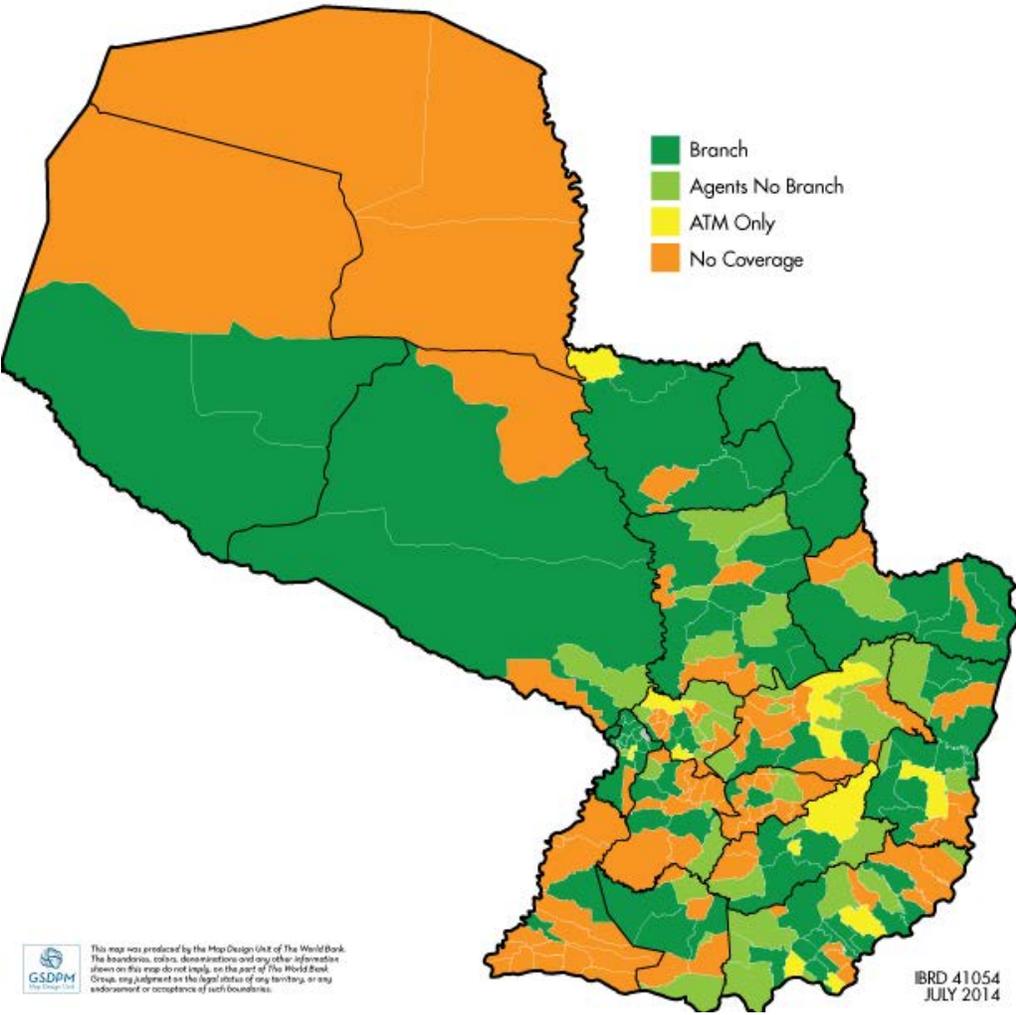
**A high portion of districts are not attended to by the formal financial system.** There are 69 districts throughout the country that have a population of more than 2,000 but have neither branch, ATM, nor agent (of a bank or cooperative). Authorities should raise awareness among service providers of the areas in the country that have higher populations and no formal presence by regularly monitoring and reporting on the bank presence throughout the country. Authorities should also encourage the use of agents and ATMs as a low cost way of reaching out into areas that are considered not feasible for a full branch office.

**Agent banking will be extremely important to increasing financial inclusion in Paraguay.** Banks should be encouraged to use agents. There are already extensive agent networks that have been built by MNOs and payment service providers that the financial institutions could possibly leverage to quickly build up a reliable network of agents. Authorities should encourage and assist financial institutions to deploy their own agent networks leveraging this robust network of qualified and experienced agents. In practice, it is common for agents to represent multiple entities. The use of agents by financial institutions will have a greater impact on financial inclusion if agents are not contractually obligated to exclusively represent only one entity. Legally, agent are allowed to conduct a wide variety of financial services, but so far financial institutions are allowing agents to provide a limited set of services to customers. Agents can have a much greater impact on financial inclusion if they offer a wide range of services through their agents, including account openings. Authorities should encourage these practices among financial service providers.

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<sup>107</sup> The National Banking and Securities Commission in Mexico produces an annual Financial Inclusion Report.

**FIGURE 10: Map of Paraguay and Bank Coverage**



### ***Box 1.1 International Experiences with Agent Banking***<sup>108</sup>

Increasing bank presence by establishing new branches, particularly in rural areas, can be a prohibitively expensive business proposition for banks and other financial institutions. Allowing banks to offer services through agents, such as pharmacies, grocery stores, or post offices, can dramatically reduce the cost of serving previously unserved communities and increase access to financial services throughout a country.

Agent banking is widely used in Latin America. Often considered a pioneer in this area, Brazil first introduced agent banking in 2000. By 2011, all but a few of the country's 5,570 municipalities had bank presence either through a branch or an agent. While only 0.4% of the municipalities had a bank branch but not an agent, agent banks were the sole providers of banking services in 37.8% of the municipalities.

Colombia began allowing agent banking in 2006. As of March 2014, there are 61,981 agents in the country. In 2013, agents performed 20,199,348 transactions worth \$90,743,885 USD.<sup>109</sup>

The costs and challenges faced when mobilizing a network of bank agents include identifying qualified agents, training agents, setting up and maintaining any necessary equipment, managing the cash flow of the agents, and managing risk and security against fraud and theft.

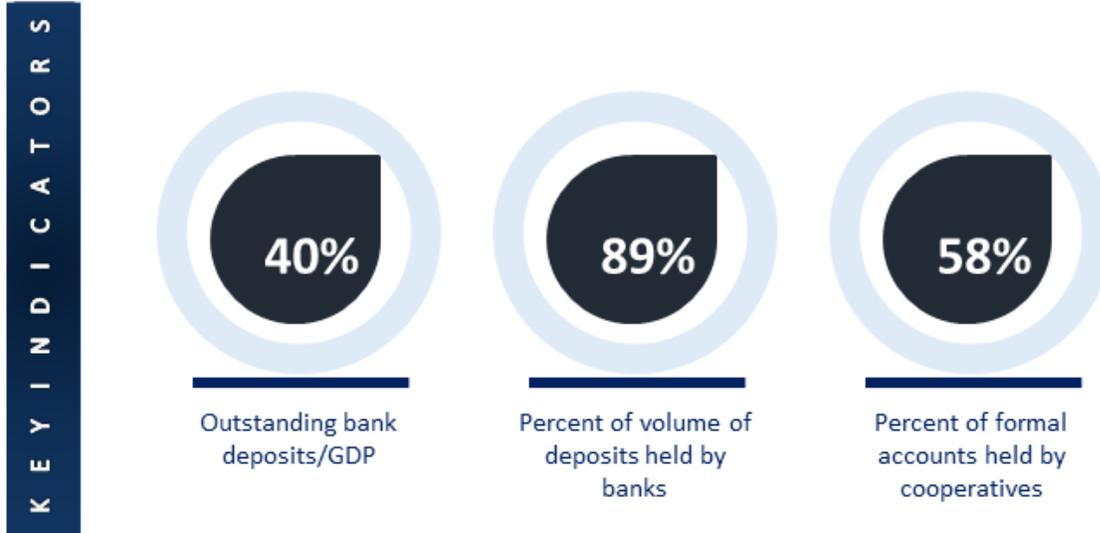
These challenges can be minimized and bank agents can be mobilized relatively rapidly if banks are able to leverage existing agent networks. For example by building on the existing MNO agent network, banks in Kenya rolled out almost 9,000 agents within the first year of introducing agent banking regulation. Mexico also rolled over 9,000 agents in the first year because banks partnered with existing chain stores and pharmacies as bank agents.

Bank agents can be permitted to perform a broad range of banking services and transactions. Examples of the allowed transactions in Brazil and Colombia include paying bills, sending and receiving money, deposit and withdrawing money, transferring funds between accounts, and disbursement and repayment of loans. By offering these types of services, agents enable more active and frequent use of financial services by existing clients.

An important contribution that agent banks can make to access to financial services is facilitating new account openings and loan applications. In Brazil, agents are able to receive and forward loan and credit card applications as well as applications for deposit accounts, term savings accounts and savings accounts. In Colombia, agents are also able to receive and forward applications for accounts and loans, and are even able to interview clients as part of the application process. In 2010, agents in Colombia had facilitated the opening of 9,652 new accounts.

<sup>108</sup> Alliance for Financial Inclusion, Discussion Paper: Agent Banking in Latin America, 2012

<sup>109</sup> Banca de las Oportunidades. <http://www.bancadelasoportunidades.com.co/>



**Savings is a critical financial instrument.** Mobilizing savings is of national importance for increasing investments and improving the overall economy. For financial inclusion, savings is an important product for the financially excluded to be able to accumulate assets in a safe and convenient way. This helps provide risk mitigation against unexpected events or economic shocks and smooth their consumption over time.

**In Paraguay, bank deposits as a percentage of GDP have continued to increase over the last ten years.** In 2004, deposits in banks were only 24% of GDP and by 2012 (the most recent data reported to the IMF FAS) deposits had increased to 40% of GDP. Based on calculations, in April 2014 banks deposits were 60,917,592 million Gs. which represents 42.6% of GDP<sup>110</sup> and deposits in cooperatives at the end of 2013 were 7,210,111 million Gs. which represents an additional 5.0% (Figure 12).

**While savings in the formal financial sector have continued to increase in recent years, the percentage of the population actually using formal products to save remains low.** The Paraguay Financial Inclusion Survey (EIF) 2013 found that 29% has an account at a

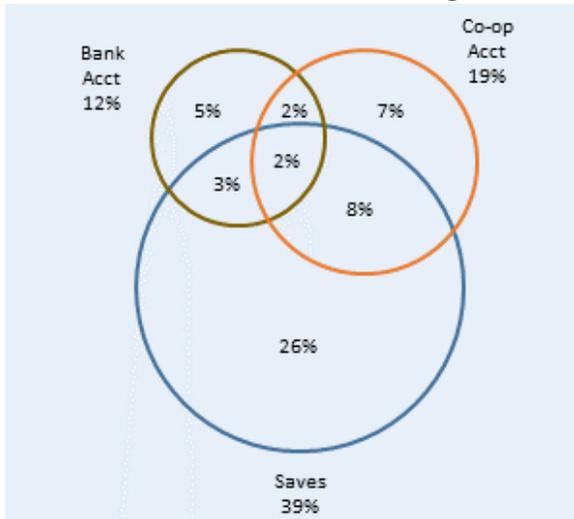
formal financial institution, -12% of all adults have an account with a bank and 19% with a cooperative; an overlap of around 5% is reported among more than one type of formal financial institution, with the most common combination being banks and cooperatives.

**Approximately 39% of the population saves but only 14% actually saves in a formal account while 25% save through informal means<sup>111</sup>.** Not everyone who has an account reports actually saving.<sup>112</sup> Approximately 14% of the population has an account but does not save (5% of the population has only a bank account but does not save, 7% of the population has only a cooperative account but does not save, and 2% has both bank and cooperative accounts but still does not save) (Figure 11). These segments of the population- those that save informally and those that have formal accounts but do not save- represent crucial market gaps and opportunities to increase formal savings.

<sup>110</sup> GDP in 2013 142,850,205 million Gs. Source: BCP, Economic Statistics, May 2014

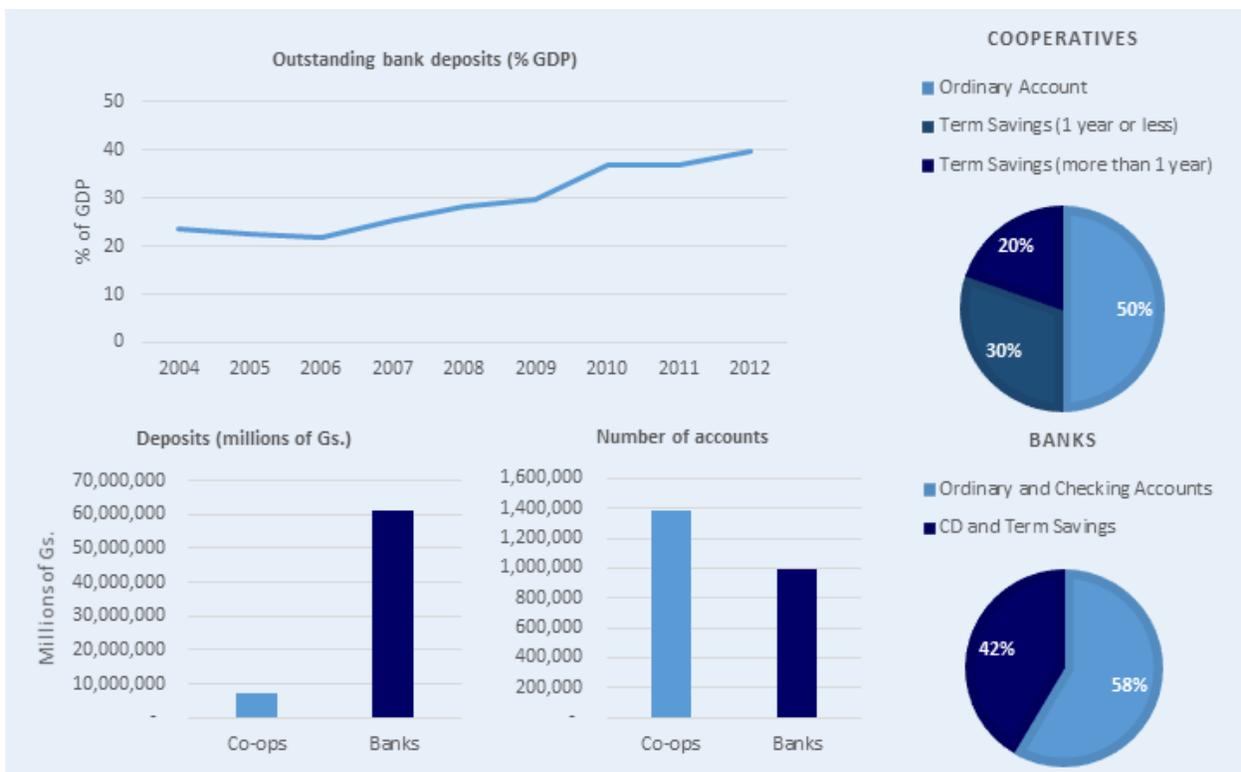
<sup>111</sup> EIF 2013  
<sup>112</sup> The National Financial Inclusion Survey asked respondents if they had saved in the last 12 months.

**FIGURE 11: Accountholders and Savings**



Source: EIF 2013

**FIGURE 12: Savings Indicators**



Source: BCP, IMF, INCOOP

The average deposit size in banks is about 12 times that of cooperatives (61 million Gs. and 5 million Gs. respectively). While cooperatives provide 58% of the deposit accounts by volume, they hold only 11% of the deposits in the country by value. On the other hand, banks hold 89% of the deposits by volume but only 42% of the deposit accounts by value.

Clients use a mix of savings accounts ranging from checking accounts and ordinary savings accounts (*ahorros a la vista*) to term savings accounts (types of term savings include “commitment savings” or “planned savings”) and CDAs. Checking accounts and ordinary savings accounts earn low interest, but the money in these accounts are available for withdrawal at any time. Banks usually offer a debit card with the checking and ordinary savings accounts. Some of the Type A cooperatives also offer debit cards to their clients, but this is not common practice yet among the majority of cooperatives. Term savings accounts and CDAs pay a higher interest, but the client has to commit to not withdraw the funds for a specified amount of time. Terms savings products can range from six months to four years or more. Cooperatives in particular offer a variety of commitment accounts that are tailored to help people save for specific life events or needs that they may have. In banks, 58% of the deposits (in value) are in checking accounts and ordinary savings accounts and 42% are in CDAs and other term savings accounts. In cooperatives 50% (in value) are in ordinary savings accounts, 30% are in term savings accounts of one year or less, and 20% are in term savings accounts of greater than one year (Figure 11 and Table 5).

**Table 5: Bank Interest Rates (weighted average across all banks)**

Type of deposit	Banks	Finance Companies
Ordinary Savings Account (Ahorro a la Vista)	0.81%	0.48%
Term Savings	5.54%	10.61%
CDA	10.33%	11.58%
<b>Total Weighted Average</b>	<b>5.90%</b>	<b>4.39%</b>

Source: BCP February 2014

## COST AND OTHER BARRIERS TO SAVING

**Why are people opting to save in cash and livestock instead of the formal financial sector?** Geographic outreach as described in Section 1 may certainly be one factor, but according to the EIF only 4% claimed that distance was the main reason for not saving in an account. Products also have to be well-designed, affordable, and appropriate.

**The documents required to open a bank account (as stipulated by SEPRELAD<sup>113</sup>) are a national ID, proof of income, and a utility bill.** According to the EIF, 24% of respondents cited lack of documentation as the reason for not having an account. Table 6 provides an overview of the documentation requirements for opening an account in different countries.

**Proof of income poses a significant administrative barrier to opening a bank account.** In fact, the majority of the population would not be able to produce these documents. It is estimated that only 28% of the working age population are salaried employees (this does not include business owners, independent workers and domestic employees).<sup>114</sup> In 2013, 92.5% of the population in Paraguay has a government-issued identification (94.3% in urban areas and 89.8% in rural areas)<sup>115</sup>. Utility bills may also pose a challenge for some people. According to ANDE, in 2011 (the most recent year reported), there were 1,058,182 invoiced clients (homes) in the country, which ANDE estimated to cover 98.2% of the country's population. Likewise, according to DGEEC, in 2013, 97.9% of the rural population has electricity, 99.7% of the urban population does, which results in 99% of the overall population.<sup>116</sup>

**Larger cooperatives generally have the same requirements as banks, but tend to be more accommodating to informally employed or self-employed clients, accepting alternative proofs of income such as receipts.** Cooperatives are also often associated with a town or a productive sector, and are thus prepared to accommodate clients that are a part of their target community but who may not have all the required documents.

<sup>113</sup> Resolution 349, Articles 16 through 19.

<sup>114</sup> Source: Encuesta Permanente de Hogares 2012. Author's own calculation based on 9.2% and 35.8% of the employed population (3,246,904) are public and private employees, respectively. The working age population is 5,309,235.

<sup>115</sup> DGEEC, *Condiciones de Vida* 2009-2013.

<sup>116</sup> DGEEC, *Condiciones de Vida* 2009-2013

**Table 6: Cross-country comparison of documentation requirements to open an account**

Country	Proof of identity through government-issued ID	Proof of identity through any ID	Proof of nationality/legal status in country	Proof of address	Proof of income	Proof of employment	Exception from requirements for low-income applicants or small accounts
Paraguay	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Argentina	Yes		Yes	Yes			Yes
Bolivia	Yes		Yes	Yes			
Brazil	Yes		Yes	Yes			Yes
Chile	Yes		Yes	Yes	Yes		Yes
Colombia	Yes						Yes
Costa Rica	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Dominican Republic	Yes	Yes	Yes	Yes	Yes	Yes	
Ecuador							
El Salvador	Yes		Yes	Yes			
Guatemala	Yes		Yes	Yes			
Jamaica	Yes		Yes	Yes	Yes	Yes	
Mexico	Yes		Yes	Yes			
Nicaragua	Yes		Yes	Yes			
Panama	Yes		Yes	Yes	Yes	Yes	
Peru	Yes			Yes			
Uruguay	Yes		Yes	Yes	Yes	Yes	
Venezuela	Yes	Yes			Yes	Yes	

Source: CGAP, *Measuring Access to Financial Services around the World 2009*

**Based on information on products and fees from 20 banks and finance companies<sup>117</sup>, all of the institutions require a minimum balance on all of their savings accounts (not including the simplified basic accounts, discussed later in this Note).** The median minimum balance is Gs. 750,000, which is 42% of the monthly minimum wage.<sup>118</sup> Seventy-seven percent of the population lives in a household whose household income is less than the minimum wage<sup>119</sup>. The median fee for not maintaining the minimum balance is Gs. 33,000 per month.

**The fee structure can be overwhelming and may be a deterrent to people entering the banking sector.**

Aside from the maintenance fee on accounts with a low balance, 10% of banks charge the client for a debit card (the rest provide the card without charge) and 30% charge for re-setting the PIN if the client forgets it. Each account is allocated a certain number of ATM transactions per month, which includes withdrawing money as well as account balance inquiry. There is a fee charged per transaction above the allocated transactions. The fee structures are often complicated. For example, some banks allow clients a certain number of transactions at the institution's own ATMs as well as a certain number of transactions at other institutions' ATMs, after which the per transaction fee for use of other institutions' ATMs is more than double that for the bank's own ATMs. Some banks even allocate the number of ATM transactions allowed per month based on the average account balance maintained during the previous month. Additionally, it appears that clients are not warned of the fee that will be applied for use of the ATM prior to making the transaction. It only appears on the receipt after the transaction and charge is complete.

**Cooperatives do not offer the same simplified accounts as banks, but they do offer savings to their members with no minimum balance; however, there are costs to join and also to maintain your membership with the cooperatives, which likely deters potential micro-savers.** To join a cooperative, there is usually a set of administration fees, plus payment towards "solidarity" (discussed in Section 5) plus an initial

deposit into a savings account. Aggregated data for the sector is not available, but for example the cost of joining *Cooperativa Medalla Milagrosa*, one of the largest cooperatives with 145,418 active members in 2013, is Gs. 110,000. To maintain an account at this cooperative costs Gs. 17,000 per month (including Gs. 6,000 for solidarity), which is 1% of the legal minimum wage<sup>120</sup>. If a person wanted to maintain a small amount of savings in an account with a cooperative, the monthly fees would quickly reduce the actual savings. In one year, the monthly fees would add up to Gs. 204,000. On a small savings of Gs. 500,000, for example, this charge would be the equivalent of a 40.8% annual charge.

**On the other hand, though the EIF found that only 8% claimed lack of trust to be a reason for not having a bank account, it may still be an issue.** Between 1995 and 2003 Paraguay experienced a number of financial crises that left about half of the banks and two thirds of nonbank financial institutions liquidated<sup>121</sup>. Based on anecdotal evidence, this experience may have damaged people's trust in formal financial intuitions.

## SIMPLIFIED SAVINGS ACCOUNTS

**In 2013, BCP introduced a new regulation to allow banks to offer simplified basic bank accounts.<sup>122</sup>**

Customers can open a simplified account with only a national ID and a signed form. There is no monthly maintenance fee and no minimum opening amount or balance. Customers are allowed at least three balance inquiries and four withdrawals monthly via ATM, agents, or other branchless banking mechanisms (e.g. mobiles, internet) free of charge. Beyond these required characteristics, each institution can define the fees to charge for additional transactions as well as the other specifics of the product to offer.

**According to the regulation, individuals can have one basic account per institution and up to two basic accounts in total.** The BCP currently does not monitor savings accounts by individual IDs as it does with loans. To be able to enforce the limit on the number of basic accounts per person, BCP plans to begin monitoring these simplified accounts.

**Banks are not required to offer simplified accounts and so far only six banks have applied (and have been authorized) to offer basic bank accounts- Interfisa Financiera, Vision Banco, Sudameris Bank,**

<sup>117</sup> Publication of tariffs April 2014 from 20 banks and finance companies: Interfisa, BNF, El Comercio, Itau, Vision, Familiar, Bancop, GNB, Itapua, Sudameris, Solar, Rio, Regional, FPJ, Continental, Citibank, BNA, BBVA, Atlas, Amambay

<sup>118</sup> Gs. 1,824,055/month. This value of the minimum wage is effective since March 2014. . This minimum wage applies only to the formally employed. People who are employed informally or self-employed may earn less than this minimum wage.

<sup>119</sup> Calculation based on based on the DGEEC's Permanent Household Survey 2013 and the per capita household incomes in the 2013 Principal Results on Poverty and Income Distributions bulletin. [http://www.dgeec.gov.py/Publicaciones/Biblioteca/eph\\_2013/Boletin%20de%20pobreza%202013.pdf](http://www.dgeec.gov.py/Publicaciones/Biblioteca/eph_2013/Boletin%20de%20pobreza%202013.pdf)

<sup>120</sup> The current minimum wage is 1.8 million Gs or \$411 USD per month

<sup>121</sup> IMF, Paraguay: Financial System Stability Assessment – Update, July 2011

<sup>122</sup> Resolution 25, Act 51, 2013

**Banco Itau, Financiera El Comercio, and Banco Continental.** To be approved to offer this product, banks present the proposed client contract to BCP to ensure that it complies with the regulation and with consumer protection standards. To date, most banks have not even begun to offer this product; as of September 2, 2014, the BCP reports that 8,744 simplified bank accounts had been opened in the country, by Interfisa and Vision Banco.

**Despite working closely with the private sector to design the regulations, uptake of simplified accounts has been slow.** The government is not subsidizing them and the banks may not see simplified accounts as an attractive product to offer because of the no fees. In some countries where simplified accounts were introduced, the government required banks to offer them, but this can potentially lead to negative results or low usage of the accounts without the proper incentive mechanisms in place (Box 2.1). The BCP should start a dialogue with banks and the associations (ASOBAN and ADEFI) specifically to get feedback on the reasons behind the lagging interest in simplified accounts. Because in Paraguay banks are not required to offer these accounts, the BCP should also make a concerted effort to reach out to the financial institutions to raise awareness about the benefits and possible business opportunities that offering these accounts represent. The government can also improve the market conditions by supporting financial literacy and awareness initiatives geared towards the target populations.

**For the last two years, Vision Banco has been offering a type of simplified savings account called “Ahorro Facil,” and has already opened 70,000 of these accounts<sup>123</sup>.** Vision Banco has developed a business model that leverages these accounts to help enter into markets that are underserved. Serving these markets is profitable for Vision Banco because there is little competition and the high volume of clients makes up for the low profit margins allowed by this product. Now that the regulation has been introduced, Vision Banco is in the process of converting all of these accounts into the official simplified basic accounts.

**Table 7 compares the different savings accounts offered by several banks.** These include the two examples of simplified accounts- Vision and Sudameris- that are available as of June 2014.

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<sup>123</sup> Interview with Vision Banco. Vision Banco has a total of 157,784 deposit accounts, according to data from BCP updated May 2014

**Table 7: Comparison of savings products offered by different banks and finance companies**

	Visión Banco		Sudameris Bank		Banco Continental	Banco Familiar	Banco Regional	Banco Atlas	Financiera El Comercio	Interfisa
	Ordinary savings account (Ahorro a la Vista)	Simplified savings account (Ahorro Facil)	Ordinary savings account (Ahorro a la Vista)	Simplified savings account (Cuenta básica)	Ordinary savings account (Ahorro a la Vista)	Ordinary savings account (Caja de ahorro)	Ordinary savings account (Caja de ahorro)	Ordinary savings account (Caja de ahorro)	Ordinary savings account (Caja de ahorro)	Ordinary savings account (Caja de ahorro)
Maximum deposits per month	No maximum	Gs. 9,950,000	No maximum	6 minimum wages	No maximum	No maximum	No maximum	No maximum	No maximum	No maximum
Initial deposit	Gs. 500,000	No minimum	Gs. 1,500,000	No minimum	Gs. 1,000,000	Gs. 100,000	Gs. 1,000,000	Gs. 300,000	Gs. 50,000	Gs. 50,000
Minimum balance	Gs. 500,000	No minimum	Gs. 1,500,000	No minimum	Gs. 1,000,000	Gs. 1,000,000	Gs. 10,000,000	Gs. 300,000	N/A	Gs. 50,000
Low balance fee	Gs. 20,000	N/A	Gs. 88,000	N/A	Gs. 88,000	Gs. 22,000	Gs. 110,000	Gs. 33,000	N/A	Gs. 25,000
Cancellation of the account	N/A	Gs. 10,000	N/A	N/A	N/A	N/A	Gs. 11,000	Gs. 22,000	N/A	N/A
Debit card	No cost	No cost	No cost	No cost	No cost	No cost	No cost	No cost	22,000 Gs.	No cost
Re-issuing of debit card	Gs. 21,000	Gs. 21,000	Gs. 66,000	Gs. 66,000	Gs. 33,000	Gs. 22,000 ~ 38,500	Gs. 55,000	Gs. 22,000	Gs. 22,000	Gs. 22,000
Number of ATM withdrawals per month	N/A	6	5 Sudameris	5 Sudameris	3 Continental	N/A	N/A	N/A	6	N/A
Number of ATM balance inquiries and/or withdrawals per month	N/A	2	5 Sudameris	2 Other	3 Continental	N/A	N/A	N/A	N/A	10 Interfisa - 5 other
Total number of transactions per month	5 to 25 depending on account balance during previous month	N/A	N/A	3 Sudameris and 2 with others	N/A	N/A	5	N/A	N/A	3
Cost per additional withdrawal or balance inquiry	Gs. 6,000	Gs. 2,100 Vision ATM Gs. 4,300 other ATM	Gs. 2,500~3,500 Sudameris Gs. 3,300~4,400 other	Gs. 2,200 Vision ATM Gs. 2,200 other ATM	US\$ 0.22 Continental US\$ 0.33~0.66 other	Gs. 2,750	Gs. 3,300	Gs. 1,650 ~ 4,400 Atlas Gs. 2,200~5,500 Other	Gs. 4,400	Gs. 4,500 ~ 5,000

Source: Provided by BCP, June 2014

### **Box 2.1 International Experiences with Simplified Savings Accounts**

Simplified savings accounts can have a significant impact on financial inclusion. Documentation requirements and procedures to open a bank account often preclude significant segments of the population from saving their money through formal means. It is not uncommon in many countries for people, particularly low-income and rural populations, to not have all of the documentation required to open an account or even to be able to reach a branch in-person to submit the application.

Anti-Money Laundering (AML) requirements are meant to protect against the risk of criminal economic activity. Regulators are then faced with the challenge of designing regulations around account opening that ensure sufficient Know Your Client (KYC) procedures but at the same time do not unnecessarily exclude otherwise qualified clients from the formal financial system.

Simplified accounts are low-value, low-risk savings accounts that allow for simplified account opening procedures. Generally they can be opened with minimal paper work and usually require just national ID. The accounts usually have a limit on the number and value of transactions performed per month and on the account balance. Simplified accounts can often be opened at agents or through a mobile phone instead of requiring a potential client to physically visit a bank branch.

Simplified accounts have significantly increased the banked population in a number of countries; however, for the model to be sustainable the challenge lies in finding a way to ensure that the product is both economically viable for banks but is still appropriate and affordable to the target low-income populations.

Simplified accounts were launched in South Africa in 2004 as a part of a national Financial Sector Charter. The four major banks in the country and the Post Office/Postbank jointly designed the characteristics and marketed this new product- the Mzansi account. From 2004 to 2008, six million Mzansi accounts were opened and the percentage of banked South Africans increased from 46% to 63%. However, by creating what was essentially one common product, banks were unable to compete on product feature, pricing or branding which prevented these banks from adjusting and improving the product over time as they normally would. As a result, by August 2008 approximately 30% of the Mzansi accounts were inactive or closed and because of the high operational cost and low level of fees charged, this product was not particularly attractive for banks either. After 2008 at the conclusion of the first phase of the Financial Sector Charter, banks were no longer obliged to offer the Mzansi account. Banks slowed down the promotion of the Mzansi accounts and in the years following 2008, the level of financial inclusion began to stagnate at around 63%.<sup>124</sup>

Similarly, in 2007 simplified bank account regulations were introduced in Colombia, which required banks to allow two transactions and one balance inquiry per month. Uptake of this product by banks was low due to the high operational cost and low levels of income from these accounts. Banks began to actively offer these accounts only after the regulation was changed in 2010 to allow banks to charge for transactions. By the end of 2011, there were 2,787,250 simplified accounts (but 27% were inactive).<sup>125</sup>

To facilitate the uptake of simplified accounts, regulators need to allow banks and other service providers sufficient flexibility to design a product that fits within their business model, while still upholding the core characteristics of these accounts that will enable greater financial inclusion.

<sup>124</sup> AFI, The Use of Financial Data Country Case: South Africa. The Mzansi Story and Beyond, January 2014 and CGAP blog: Beyond the Mzansi Account in South Africa – Targeting Usage, October 19, 2012

<sup>125</sup> Legal Technical Note and Banca de las Oportunidades, Reporte de Inclusion Financiera, 2012

## INFORMAL SAVING

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According to the EIF, 25% of the adult population reported saving in other ways besides formal accounts, though anecdotal evidence indicates that the informal savings rate may be much higher due to the subjective nature of the concept of savings. The EIF found that the most commonly identified informal savings mechanism is saving in cash in the house (or even buried in the ground near the house). However, aside from cash, people in rural areas regularly buy and sell livestock such as pigs, cows, and chickens as a form of non-cash savings (and investment<sup>126</sup>). Livestock is a productive (though risky) alternative to storing cash because for example chickens and pigs can reproduce and be sold, cows produce milk and chickens produce eggs. Another identified informal way of saving is by buying jewelry or other goods that can be resold later.

**These informal saving mechanisms present certain risks.** Cash and valuable items can be stolen or lost due to fire or flood. Cash hidden in the house also is not an ideal vehicle because it requires extra discipline by the saver as well as the others in the household to not use the money. Animals, in the moment that people need the money, are often sold for a fraction of their fair market value. Maintaining animals can also be expensive, and even with proper care, animals are often susceptible to fatal diseases. During the field visit, interviewed households shared their experiences of using livestock as a mode of savings only to lose this entire savings when a disease struck the area last year.

**The high level of informal savings is largely due to the inaccessibility of the banking and cooperative system to the majority of the population.** Despite the introduction of simplified accounts, proof of income and/or proof of employment are required by most banks and cooperatives to open a savings account, which is a major deterrent from formal savings. There is also the issue of physical accessibility to banks and cooperatives, as discussed in this report. If a person has to spend disproportionately large amounts of money and time to deposit and then withdraw money, they will most likely opt for informal savings methods closer to home despite the drawbacks. Anecdotal evidence also suggests that over time, the poor have a perception that the formal financial system is just not for them. These issues could be improved through the use of agents, the promotion of

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<sup>126</sup> Livestock are often considered investments rather than savings, but in practice was often described as a savings product. During the mission, people described how they would buy an animal when they had more income than expenses, and how they would sell it to help cover their expenses when either their income was not enough or if an economic shock occurred.

simplified accounts, and improved financial literacy among the underserved.

**ROSCAs, or some variation of them, are common in many countries, particularly in areas that do not have sufficient bank coverage.** In Paraguay, these informal savings groups are called “ruedas”. While they exist, they are generally not very common even in the rural settings where demand for alternative savings mechanisms would be presumably high. In fact, anecdotal evidence suggests that *ruedas* are most common among co-workers in urban workplaces.

## SECURITIES MARKET

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**In recent years the stock exchange has experienced continued expansion.** Market capitalization in 2010 was only 0.2% of GDP<sup>127</sup>, and in 2012 market capitalization was up to 3.77% of GDP<sup>128</sup>. The volume of trading in 2013 was Gs. 586,810 billion up from Gs. 290,120 billion in 2006.

**The secondary market is growing as a percentage of the overall market, but it still remains low.** In 2013, secondary market trading constituted 23% of the total trading that year. This is up from only 5% in 2006.<sup>129</sup>

**The market is predominately made up of bonds and participation by the public sector continues to be low.** The most common investment instrument is bonds, with 59% of the volume of trades in 2013. Subordinated bonds made up 26% of the trading, debt securities were 7%, stocks 6% and short-term promissory notes 2%. The public sector made up only 9% of the operations completed in 2013 (Figure 13).

**While the securities market overall is growing, only a small portion of Paraguayans are actually investing or otherwise benefiting from the securities market.** While data is not available on how many individuals are investing in the securities market, anecdotal evidence suggests that those involved in the market are only people who are already highly financially literate and already using a variety of financial services and products.

**Capital market products are generally out of reach for the majority of under and unbanked Paraguayans.** Expansion of the market can nonetheless have a positive impact on financial inclusion. The market can enable more options for long-term financing of businesses and

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<sup>127</sup> World Bank database

<sup>128</sup> Data provided by Bolsa de Valores & Productos de Asuncion S.A., 2014

<sup>129</sup> Data provided by Bolsa de Valores & Productos de Asuncion S.A., 2014

can also provide people with alternative vehicles for saving and investing. A key to unlocking this potential is improving financial literacy and working with financial and

government institutions to engage more actively in the market.

**FIGURE 13: Securities Market in Paraguay**



Source: Data provided by Bolsa de Valores & Productos de Asuncion S.A., 2014

## CONCLUSION

**The main challenge with savings is that the majority of people do not have appropriate or adequate options to save their money with formal institutions.** The simplified accounts will be critical to increase financial inclusion. Uptake of the simplified accounts has been slow. The BCP should solicit feedback from banks and the associations (ASOBAN and ADEFI) on the simplified accounts to understand the reasons behind the slow uptake of this product. The BCP can also play an important role by reaching out to these financial institutions to raise awareness about the benefits and

possible business opportunities that offering these accounts represent.

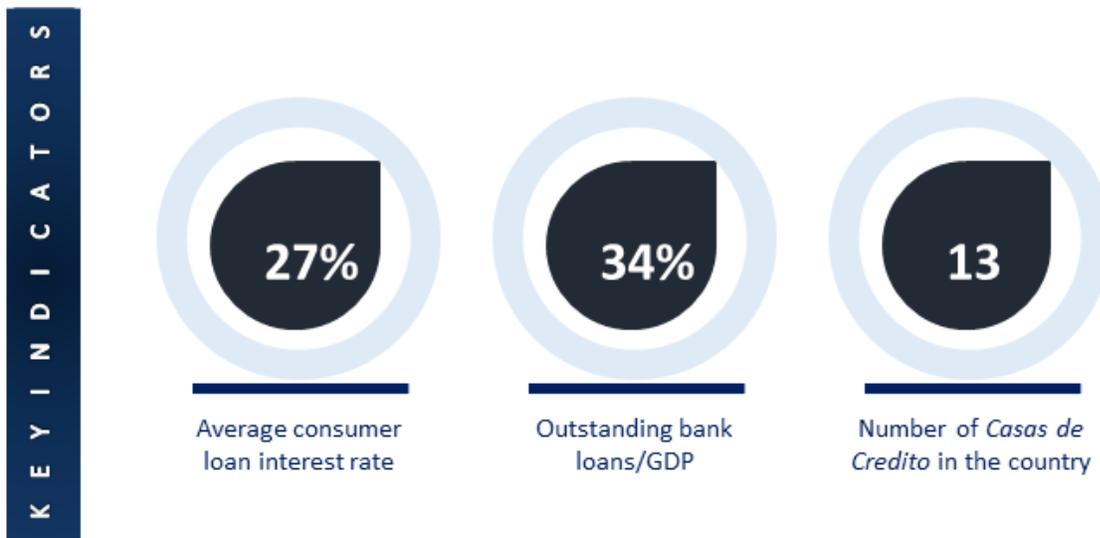
**The ordinary savings accounts should also be reviewed to find ways for banks to make them more accessible.** AML/CFT requirements should also be revisited to allow financial institutions to not require proof of employment and/or income to open an ordinary savings account, which would significantly reduce the barriers to savings. The minimum balance required by most banks is also prohibitively high. In addition, the government should continue to support efforts such as

the annual identification drives conducted by the National Police and perhaps begin to fund other initiatives to ensure that all eligible citizens of Paraguay have a national identification card.

**There is evidence that the poor and under-served are interested in saving.** Financial institutions should be encouraged and assisted in innovating new savings products for the poor, such as commitment saving products targeting that segment of the population.

**BCP should collect and maintain a database of unique depositors (not just simplified accountholders) to better monitor access to savings overall.**

**To increase financial inclusion sustainably, the securities market should also be supported.** Retirement funds and insurance companies should be allowed and encouraged to invest in securities. Banks should also offer new investment products to clients.



**Access to affordable and appropriate credit products is a key dimension of financial inclusion and a motor of economic growth for the country.** Access to credit helps people smooth consumption over time and improve their quality of life in the long run through investments such as education and housing. For MSMEs, credit is vital to creating and expanding a business.

**Credit in the banking sector in Paraguay has grown over the years, from 12% of GDP<sup>130</sup> in 2004 to 39% of GDP in 2014<sup>131</sup>.** Borrowers per 1,000 adults (15 years and older) has also increased from 85 in 2004<sup>132</sup> to 202 in 2013<sup>133</sup>.

**Finance companies charge higher interest on lending than banks.** The average interest rate on loans from banks is 19% and from finance companies is 34%. In general, the difference can be attributed to the different profile of clientele. Finance companies tend to reach more down market to higher-risk customers and so therefore have to charge higher rates. Consumer lending and credit cards are the most expensive types of credit in both banks and finance companies. Among banks, home

loans and development loans have the lowest average interest rate of 13%, while consumer loans are the most expensive at 27%. Among finance companies, development loans have the lowest interest rate of 18%, while home loans have an interest rate of 25% and consumer loans an interest rate of 28%. Banks charge 41% on overdrafts of checking accounts (finance companies cannot offer checking accounts). Banks charge an average of 50% on credit cards, while finance companies offer an average interest rate of 41% (Table 8).

**The banking sector (including banks and finance companies) constitute 84% of the formal credit market by value and cooperatives comprise the other 16%.** As described in Section 1, banks and finance companies are similarly structured, but finance companies tend to serve individuals and businesses in lower income brackets than banks. Banks, not including finance companies, are the largest providers of credit in the country by volume and the largest portion of their credit goes to the agriculture sector (35%)<sup>134</sup>. For

<sup>130</sup> IMF FAS

<sup>131</sup> Data provided by BCP June 2014

<sup>132</sup> IMF FAS

<sup>133</sup> Data provided by BCP June 2014

<sup>134</sup> This agriculture financing from banks actually seems to serve all levels of enterprises from small family farms to large enterprises. According to the agriculture census 2008, 15% of small family farms with credit are financed through banks and 14% of medium and large agriculture business is financed through banks (but of course only 16% of family farms have credit compared to 37% of medium and large farms).

cooperatives and for finance companies, the largest portion of credit by volume goes towards consumer credit and other personal loans, 58% and 32% respectively (Figure 14).

**Table 8: Interest Rates (weighted average)**

Type of loan	Banks	Finance Companies
Commercial Loans	18%	25%
Development Loans <sup>135</sup>	13%	18%
Consumer Loans	27%	28%
Housing Loans	13%	25%
Other	12%	N/A
<b>Weighted Average of Loans</b>	<b>19%</b>	<b>34%</b>
Overdraft	41%	N/A
Credit Card	50%	41%
<b>Weighted Average of Overdraft and Credit Cards</b>	<b>23%</b>	<b>41%</b>
Cooperative loans <sup>136</sup>	<b>24.3%</b>	

Source: Data provided by BCP February 2014 and INCOOP

<sup>135</sup> BCP defines development loans as those that are for individuals and enterprises that are not large which are directed to the agriculture, livestock or industrial sectors.

<sup>136</sup> Source: INCOOP. Weighted average **effective** interest rate for Type A cooperatives in June 2013.

**FIGURE 14: Credit Market**



Source: Top: IMF FAS, Bottom left: CONPACCOOP Cooperative Census 2012, Bottom center and right: BCP February 2014. Note that the categories against which banks/finance companies and cooperatives report are distinct.

**Other sectors that receive bank credit include:** Commerce (wholesale and retail) with 22% of banks' loan portfolio, consumer credit (families) makes up 16%, and the industrial and service sectors make up 10% each. Finance companies on the other hand provide 23% of its portfolio to commerce, 20% to agriculture, and 11% to services. Cooperatives provide 43% of its portfolio to personal loans, 15% to consumer loans, 13% to agriculture and 6% to housing (Figure 14).

**The credit market is characterized by liquidity but insufficient information.** As of April 2014, 58.82% of bank assets were bank loans<sup>137</sup> and the rest were primarily liquid resources held in central bank accounts<sup>138</sup>. Because the existing credit information in the market is not robust and because banks have the

liquidity to lend, banks as well as other lenders in the market are eager to engage clients with proof of salaried employment. On one hand, for people and businesses who do not have documented proof of income either as an employee or as an owner of a business, it is difficult to obtain loans. On the other hand for qualifying clients, credit approval is relatively easy and it is not uncommon to take out multiple loans, or even loans to pay off other loans.

**Currently there is no collateral registry in the country<sup>139</sup>.** A collateral registry could increase access to finance for small and medium enterprises (SMEs), agribusinesses and other productive sectors. IFC is currently in the initial phases of engaging with the relevant public and private institutions to initiate a financial, legal and institutional assessment of the current secure transaction and collateral registry system.

<sup>137</sup> BCP calculation provided June 20, 2014

<sup>138</sup> IMF, Paraguay: Financial System Stability Assessment – Update, 2011 states that the assets not lent are held in central bank accounts.

<sup>139</sup> Source: World Bank, Doing Business 2014: Paraguay

In response to the lack of collateral by borrowers, some institutions have started to look into alternative lending methodologies such as leasing and factoring. Itaú is currently the only bank offering an established factoring product, but this service is directed only at large enterprises<sup>140</sup>. Fondo Ganadero has also expressed interest in leasing and factoring, and is starting to look into these options. CAH is currently conducting a pilot of a factoring product. There appears to be demand by both financial institutions as well as enterprises for these alternative loan instruments, but more market research and business development is needed.

## CONSUMER & OTHER CREDITS

**Consumer credit has grown in recent years.** There was a 24.5% increase in consumer credit by banks in 2013.<sup>141</sup> The EIF found that 34% of the adult population borrowed money in the last 12 months, 7% only from informal sources and 20% only from a formal institution<sup>142</sup>.

**The average annual interest rates on consumer lending is 27%, for housing the average is 13%, and for credit cards the average is 50%.**<sup>143</sup>

**Consumer and personal credit is offered by most formal financial institutions, and for people that use credit, it is not uncommon to carry multiple debts at once.** According to the EIF, 34% of adults report having borrowed money in the past 12 months, of which 4 percent reported having solicited a loan from more than one source. This is not including credit cards.

**Banks and finance companies maintain 973,766 credit card accounts**<sup>144</sup>. Therefore the ratio of credit cards to adult population is 20.36%. The EIF survey on the other hand showed that only 8% of adults report having a credit card, and 40% of credit card holders have more than one credit card, which places Paraguay's credit card penetration lower than the average in LAC. The low level of penetration this is likely due to the low level of access to the banking system in general. The majority of the population has no relationship with a financial institution, so the opportunities to know about a credit card are rare. On the other hand, these data would

<sup>140</sup> [www.itaui.com.py/Paginas/paraempresas\\_pagoselectronicos\\_factoring](http://www.itaui.com.py/Paginas/paraempresas_pagoselectronicos_factoring)

<sup>141</sup> Provided by BCP

<sup>142</sup> An overlap of 2% was reported (formal and informal) and 5% of adults reported having borrowed but without specifying the source.

<sup>143</sup> Provided by BCP February 2014

<sup>144</sup> Data provided by BCP June 2014

suggest that those 40% of card holders (or 3.2% of the adult population) that have more than one card actually have numerous cards each, perhaps three or more each.

**Table 9: Formal Consumer Credit**

Financial Institution	Outstanding consumer credit
Banks	8,210,930 million Gs.
Finance Companies	1,078,236 million Gs.
Cooperatives	1,754,238 million Gs.
<b>Total</b>	<b>11,043,405 million Gs.</b>

Source: BCP 2014, Total cooperative loans from INCOOP 2013, designation to consumer loans (15%) from CONPACCOOP Cooperative census 2012.

**Most formal and semi-formal lenders ask for a national ID, a utility bill, proof of income and a personal reference (this is used as an alternative means for locating the borrower).** The critical documentation that the majority of the population cannot provide is proof of employment (72% of the working age population do not have salaried employment<sup>145</sup>). Based on anecdotal evidence, because lenders seek them out as qualified customers (and because detailed information is not available on a person's existing loans), it is not uncommon for middle to lower income salaried workers, such as teachers or office workers, to fall into excess debt. Lack of adequate financial literacy and/or capability also contributes significantly to the problem.

**The total outstanding consumer credit by formal institutions is Gs. 11,043,405 million.**<sup>146</sup> (Table 9). While there is no data on how much consumer debt Paraguayans individually hold<sup>147</sup>, an interesting proxy indicator to consider is the ratio of consumer debt to the total number of salaried employees, which is Gs. 7.4 million<sup>148</sup>. This provides a rough estimate of the

<sup>145</sup> Source: Encuesta Permanente de Hogares 2012. Author's own calculation based on 9.2% and 35.8% of the employed population (3,246,904) are public and private employees, respectively. The working age population is 5,309,235.

<sup>146</sup> Source: BCP 2014, Total cooperative loans from INCOOP 2013, designation to consumer loans (15%) from CONPACCOOP Cooperative census 2012.

<sup>147</sup> The BCP *central de riesgo* credit reporting system has total debt per bank client, but it does not distinguish the different types of lending. Data is not available on loans to cooperative members, though INCOOP is in the process of developing its own *central de riesgo*.

<sup>148</sup> Estimated 1,486,586 salaried employees based on public and private sector employees DGEEC EPH 2011

consumer credit that salaried employees maintain on average.

**Most striking is the fact that 72% of the country's working age population without salaried employment usually cannot access consumer credit.** As discussed in Section 2, there are also segments of the population that would have trouble producing a national ID and utility bills. Those who would not usually qualify for a loan generally have a better chance of qualifying through a cooperative, especially if they have a standing relationship with the cooperative, i.e. they have consistently paid their membership fees and have maintained a savings account with the cooperative. For the many others who cannot qualify for a loan, credit from a formal financial institution is simply not an option.

**Home lending is primarily funded by AFD, a public second tier bank that specializes in long-term lending.** From June 2006 through April 2014, AFD has provided \$703.7 million USD in lending to the formal market. AFD offers various loan products and works with 13 banks, 9 finance companies, and 19 cooperatives. Funding for the different types of loans offered is allocated according to the demand from the financial institutions. Demand has been consistently high for home lending. In 2014, AFD has approved 33.08% of its portfolio to its mortgage product, Mi Casa, and 4.38% to its mortgage product for first-time home buyers, Mi Primera Casa. The interest rate for financial institutions for Mi Casa is from 7.25% to 8.25% and for Mi Primera Casa from 5.5% to 6.5%.

## MICROFINANCE

**There are a total of 1,148,141 MSMEs in Paraguay**<sup>149</sup>. Of these, the vast majority (1,117,735) are microenterprises (Table 10). Thirty-five percent of the national workforce are self-employed- 24% in urban areas and 51% in rural areas<sup>150</sup>.

**The group of businesses that can be classified as MSMEs are substantially diverse.** Their level of capacity, resources, and needs vary tremendously, both between micro and medium enterprises and also between rural and urban enterprises. In terms of access to credit, micro and small enterprises and rural enterprises are the least attended by the formal financial service providers. Rural enterprises are primarily in the agriculture sector; rural microenterprises tend to be

<sup>149</sup> Red de Microfinanzas Paraguay, Actualizacion del Estudio "Oferta y Demanda de Microfinanzas con Alcance Rural en el Paraguay." May 2013

<sup>150</sup> Encuesta Permanente de Hogares 2012

family-based farms. Both rural and urban microenterprises tend to be informal and the size of loans that they request are relatively small, which make these enterprises relatively unattractive or difficult for formal financial institutions to work with. Thirty two percent of the loans requested by microenterprises were Gs. two million or less<sup>151</sup> (Figure 15). This is on the scale of consumer or personal loans, but with greater risk to the lender because of the unstable nature of microenterprises compared with salaried employment.

**Table 10: Number of micro, small and medium enterprises by industry**

	Micro	Small	Med	TOTAL
Commercial, Industrial and Service Companies	936,848	3,658	2,607	943,113
Agriculture Companies	180,887	18,292	5,849	205,028
<b>TOTAL</b>	<b>1,117,735</b>	<b>21,950</b>	<b>8,456</b>	<b>1,148,141</b>

Source: Red de Microfinanzas Paraguay, Actualizacion del Estudio "Oferta y Demanda de Microfinanzas con Alcance Rural en el Paraguay." May 2013

**Access to credit is a critical issue for these enterprises.** According to Resolution No. 1 of Act No. 60 of September 28, 2007, microcredit is defined as loans to individuals or legal entities designated to financing small-scale production, commercialization or services and which is not greater than 25 monthly minimum wages. The BCP is currently in the process of reviewing and revising the definition of microcredit, but there is still no specific microcredit law in Paraguay, which some financial institutions feel make it difficult for them to offer microcredit.

**In Paraguay, there is not a classification of microfinance institutions as can be found in many other countries.** There are only banks, finance companies and cooperatives that offer microfinance products. There are also semi-formal institutions that

<sup>151</sup> Source: UNDP, Microfinanzas en Paraguay: Análisis de la Oferta y la Demanda, 2010

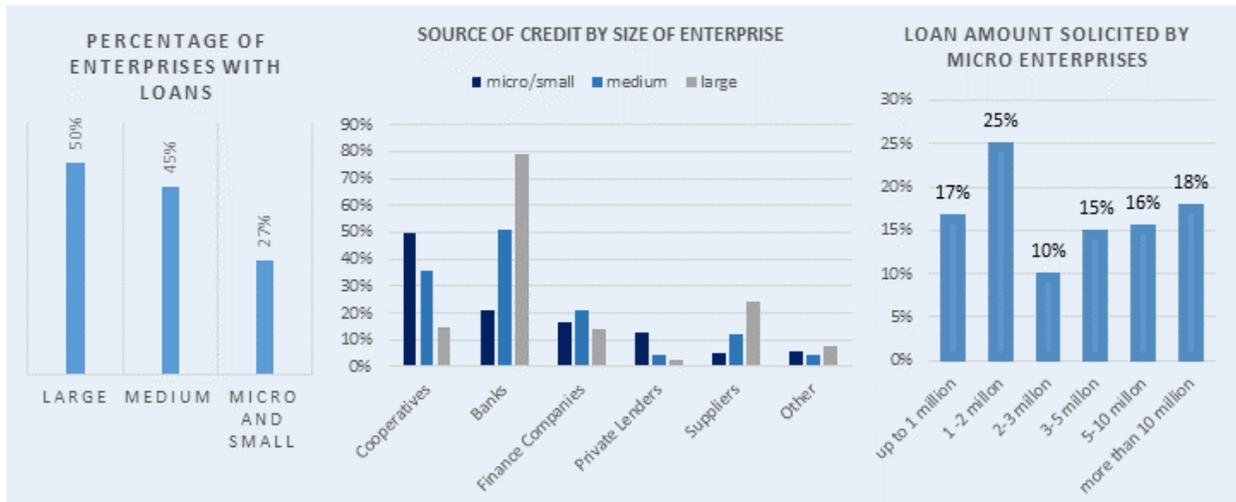
offer microcredit such as *casas de credito*, which offer all kinds of credit, some for MSMEs and other for consumer or personal use, and the two non-profit MFI/NGOs that do offer microfinance.

**Of the 27 banks and finance companies for which data was available, 14 (52%) have specific lending for SMEs<sup>152</sup>.** For banks with products specifically for microenterprises, the terms, i.e. amounts, interest rates, and payment terms, are usually similar to the lender's consumer credit portfolio. The median minimum SME loan is Gs. 1 million and the median maximum loan is Gs. 150 million. The median minimum interest rate is 18% and the median maximum interest rate is 35%. The median minimum term is 3 months and median maximum term is 36 months, which may not be enough time for some SMEs to make substantial investments in their business.

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<sup>152</sup> Banks include lending for microenterprises in this general category.  
Source: questionnaire on SME lending to banks from the World Bank (2014) and tariff report February 2014

**FIGURE 15: Microcredit**



Source: Left and Center: DGEEC, National Economic Census 2011. Right: UNDP, Microfinanzas en Paraguay: Análisis de la Oferta y la Demanda, 2010

**Some financial institutions have designed microfinance products adapted to specific industries or populations.** Financial institutions such as CAH and Financiera El Comercio as well as some of the NGO lenders have group lending programs (*banca comunal*) with people (particularly women) who want to engage in an economic activity, but do not have the collateral to qualify for a loan. In this model the participants form groups within which each person in the group is responsible for everyone in the group making his or her loan payments. Another example of tailored loan products are institutions that serve agriculture producers and have designed the terms of their loans according to the productive cycle of the specific crops. Another example of adaptation to the needs of the market is clearly seen in the business model of Cooperative Mercado 4 that works specifically with market vendors. Cooperative Mercado 4 has designed daily loan products, disbursing and collecting loans in person at the business owners shop. A few financial institutions provide long-term financing (up to five years) for microenterprises through funding from AFD. Long-term financing is important because it facilitates microenterprises transforming into small or medium enterprises; however, aside from AFD-funded lending, the longest term for microfinance loans offered by banks is three years.

**Requirements for SME loans from banks generally include: a RUC, utility bill, national ID, proof of taxes paid, and proof of at least 1-3 years of existence.** Formal SMEs with between five and 99 employees are

well served in Paraguay with 58.5% of this type of enterprise having outstanding loans compared to the LAC region with 45.7%<sup>153</sup>. However, only 23% of microenterprises are formal, i.e. have their RUC<sup>154</sup>. Lending to businesses without the required documentation is possible, but probably results in less attractive terms and higher interest rates. Similar to consumer credit, cooperatives may sometimes be more lenient about lending to informal microenterprises than banks if the business owner has a relationship with the cooperative or if the business is a part of the target clientele of the cooperative. Another way that informal business access credit from banks and cooperatives is when these lenders are willing to contract investigators to independently investigate the business and verify the information provided by the applicant. This has implications on the cost of the loans provided to these informal micro and small enterprises. The fact that micro and small enterprises tend to not have the required documents combined with the fact that the majority of these enterprises borrow from cooperatives compared with medium and large enterprises which mostly borrow from banks (Figure 15), suggests that micro and small enterprises are in fact underserved. It appears that microenterprises are less likely to access credit from banks and finance companies.

**For banks, informality and informal practices on the part of the MSMEs, along with the lack of credit**

<sup>153</sup> Source: World Bank, Enterprise Surveys (<http://www.enterprisesurveys.org>)

<sup>154</sup> UNDP, Microfinanzas en Paraguay: Análisis de la Oferta y la Demanda. November 2010.

**information and lack of a microcredit law, presents a challenge.** Of the 16 banks that responded to a survey on MSME lending conducted by the World Bank<sup>155</sup>, 12 offer products to the MSME sector. Of these 12, 11 (92%) agreed that that informal practices of the MSMEs are a significant limitation to lending to this sector. Ten (83%) agreed that financial statements and documentation are a problem and nine (75%) agreed that poor accounting skills is a limitation. Seven (58%) agreed that poor credit information is a limitation and six (50%) agreed that the regulatory framework is. One financial institution explains that the lack of regulation specifically directed at credit for MSMEs generates unhealthy competition. The vast majority of the financial institutions that are lending to MSMEs report applying some type of cash-flow methodology when lending to them.

**According to the Economic Census 2011, only 27% of small and microenterprises in the country have credit (Figure 15).** When looking at only rural agriculture microenterprises, or family farms,<sup>156</sup> this number falls to only 15.9%<sup>157</sup> (This data is from 2008. More recent data is not available; however, the current level is probably higher) (Figure 17). It is difficult to determine what percentage of the enterprises without loans actually have unmet demand. International data is not readily available on informal micro and small enterprises. However, recognizing that the majority of micro and small enterprises are informal and therefore would not be able to meet the typical enterprise loan requirements, we can assume that some of these enterprises are involuntarily excluded and/or many may be taking on consumer loans or accepting loans with shorter terms and higher interest rates than their formal counterparts.

**Seventy percent of urban microenterprises with credit borrow from cooperatives<sup>158</sup>.** Similarly, the most common source of credit for medium and large farm enterprises is cooperatives; 47% of these businesses that have credit are borrowing from cooperatives<sup>159</sup>. Meanwhile, only 27% of family farms with credit borrow from cooperatives (Figure 16).

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<sup>155</sup> The BCP upon request of the World Bank sent a survey to all banks and finance companies on access to credit by MSMEs. Sixteen responses were received.

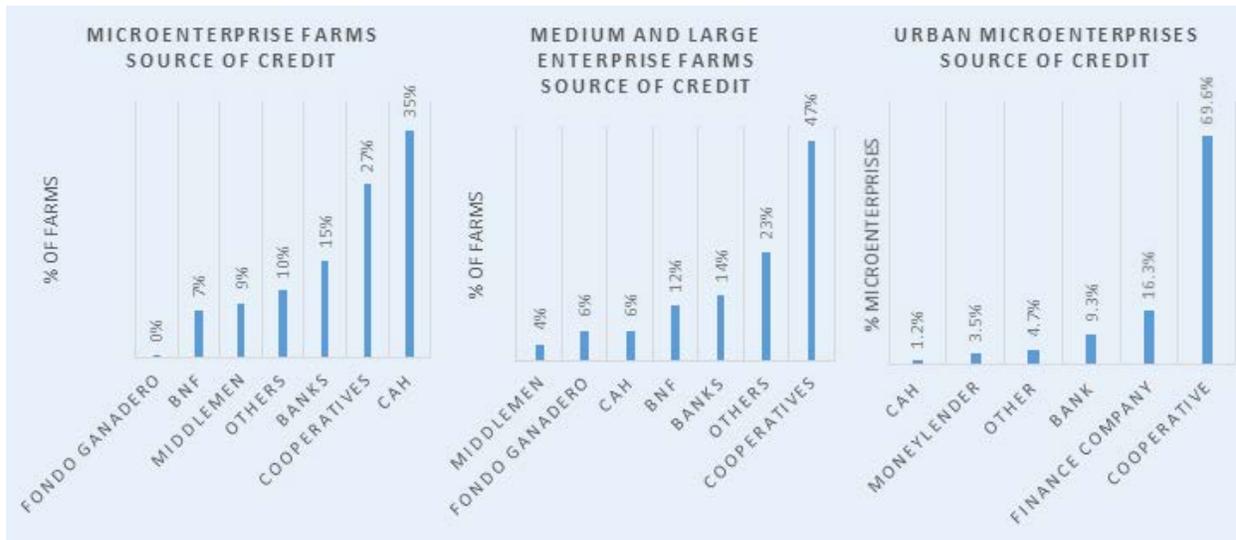
<sup>156</sup> Family farms are classified by the Ministry of Agriculture as farms with less than 20 hectares.

<sup>157</sup> Agriculture Census 2008

<sup>158</sup> UNDP, *Microfinanzas en Paraguay: Análisis de la Oferta y la Demanda. 2010*

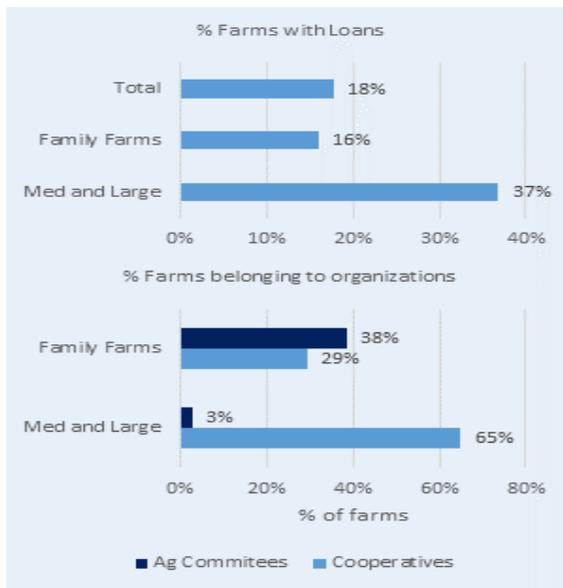
<sup>159</sup> Economic Census 2011. This statistic does not distinguish between productive cooperatives and cooperatives dedicated to savings and credits.

**FIGURE 16: Source of lending to agriculture and urban enterprises**



Source: UNDP, Microfinanzas en Paraguay: Analisis de la Oferta y la Demanda. 2010. (Data on Farms based on Agriculture Census 2008.)

**FIGURE 17: Credit and organizational support for family farms compared with medium and large farms**



Source: Agriculture Census, 2008

After cooperatives, the most commonly used source of credit for urban microenterprises comes from finance companies with 16% of urban microenterprises that use credit, then banks with 9% and finally moneylenders with 3.5%<sup>160</sup> (Figure 16).

In the agriculture sector (mostly rural), microenterprises borrow money in different ways from their medium and large counterparts. The most common source of credit for family farms with credit is CAH with 35%, 15% borrow from banks<sup>161</sup>, 9% borrow from middlemen, and 7% borrow from BNF. Medium and large farms similarly do not rely heavily on private banks, with only 14% borrowing from any private bank. The rate of borrowing from BNF is relatively high with 12%. Only 6% of medium and large firms with credit borrow from CAH. Six percent borrow from Fondo Ganadero and only 4% borrow from middlemen (Figure 16).

In the agriculture sector, farmers often organize themselves to provide support to each other and to collaborate on initiatives that could benefit its members. These groups vary in formality. In general, the more formal the group is, the more resources it can provide its members. Cooperatives are the most formal way for farmers to organize themselves, as cooperatives are supervised by INCOOP. Farmers can also form

<sup>160</sup> UNDP, Microfinanzas en Paraguay: Analisis de la Oferta y la Demanda. 2010.

<sup>161</sup> This statistic refer to the banking sector, i.e. banks and finance companies

committees, which are informal cooperative-like groups. It is not uncommon for productive cooperatives, and sometimes committees to a much lesser extent, to provide loans to its members. Cooperatives play a more prominent role for medium and large businesses than for the small family farmers. Family farmers tend to join committees rather than cooperatives, 38% and 29%, respectively<sup>162</sup> (Figure 17).

**The Paraguayan government has taken steps to promote MSME lending.** The MSME law<sup>163</sup> was passed in 2012, which led to the creation of a Vice Ministry of MSMEs within the Ministry of Industry and Commerce. The Vice Ministry's mission is to promote MSMEs in the country and in response to this, it is working with other government institutions to put in place a credit guarantee fund for MSMEs that was created by law<sup>164</sup> in 1995, but to date has still not been implemented. Currently, a new bill is being drafted. The state-owned second tier bank, AFD offers specific products for MSMEs, but more could be done to promote these products and serve more MSMEs. Other state-owned financial institutions, CAH has been exploring factoring and Fondo Ganadero has been exploring leasing as alternative ways to increase lending to MSMEs. Both of these initiatives are in early stages, and more research will need to be done to assess these products viability in the Paraguayan market and the best way forward. The government may play an important research and development role in introducing these new innovations to increase finance to MSMEs. Additionally, the National Procurements Office, or Dirección Nacional de Contrataciones Públicas (DNCP), has an online platform that allows service providers to submit proposals for new contracts and that stores all the participating companies' information such as RUC and financial statements. Within this platform, DNCP has introduced a new functionality called FINANPYMES which allows the service providers to share their company's information with financial institutions, which helps streamline the process and minimize the cost and paperwork of applying for a loan.

**As noted earlier in this section, the public and private sector are also in the initial stages of discussing possible work with IFC to evaluate the possibility of implementing a collateral registry, which could significantly increase access to credit for MSMEs that do not have traditional collateral such as land titles (Box 3.1).**

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<sup>162</sup> DGEEC, Agriculture Census 2008

<sup>163</sup> Law No. 4447

<sup>164</sup> Law No. 606/95

### **Box 3.1 International Experience with Collateral Registries**

IFC's Secured Lending Program promotes and facilitates the development of efficient secured transactions systems and collateral registries to expand access to finance throughout the globe with special focus on increasing SME financing.

According to IFC, implementing collateral registries is important because while land and buildings are widely accepted as collateral for loans, the use of movable collateral (such as inventory, accounts receivable, livestock, crops, equipment, and machinery) is restricted by non-existing or outdated secured transactions laws and registries. Reforming the movable collateral framework thus increases access to credit by businesses, particularly SMEs, which have the capacity to borrow money to grow their business, but do not have the traditional forms of collateral. Enabling movable collateral not only increases the level of credit, but also tends to decrease the cost and improve the terms. According to IFC, in industrial countries, borrowers using collateral get nine times the level of credit, repayment periods up to 11 times longer, and interest rates 50% lower than borrowers without collateral.

IFC provides the following success story from its work in Ghana:

In 2008 Ghana embarked upon a reform of its movable collateral legal framework and registry with the support of IFC. Before the reform took place, the use of movable collateral in Ghana was a key constraint for SME financing. Upon enactment of the "Borrowers and Lenders Act" in 2008, the Bank of Ghana established a collateral registry. With IFC support the Bank of Ghana has updated the Borrowers and Lenders Act and redesigned the Registry System to align more with international best practice. This transition period has been extremely successful and some of its results include:

- Over 20,000 loans have been registered since March 2010.
- The total financing secured with movable property account for more than US\$800 million.
- Around 63% of banks and other financial institutions use the registry. The challenge remains in reaching out to rural and community banks.
- Accounts receivables, other investment instruments such as shares, cash, bonds and household assets are the top 3 types of moveable collateral used by businesses and SMEs, accounting for 64% of the total.
- The new secured transactions system has led to the development of productive supply chain financing schemes in the mining and oil industry, benefiting more than 100 local SMEs creating hundreds of new jobs.

Source: IFC, "Secured Transactions and Collateral Registries"

## **SEMI-FORMAL AND INFORMAL LENDING**

**There are numerous semi-formal and informal sources of credit in the market.** These lenders provide credit to individuals and businesses that are either unable to borrow from the formal institutions for lack of documentation and qualifications or are able to borrow but prefer these informal sources. These informal products tend to charge higher interest rates than their formal counterparts, but they can also be more appropriate to the needs of clients, e.g. they can be faster, more convenient, in closer proximity, in smaller amounts.

**Casas de Credito are numerous in the country, though the exact number of institutions is unknown.** Most of them provide personal loans. The application process for these loans, particularly those that specialize in personal loans, is quick and generally less stringent than that of formal institutions. However, like other lenders, *Casas de Credito* also mostly serve people with salaried employment. Most of the *Casas de Credito* charge the maximum interest rate allowed by BCP, which is currently 56.16%.

**Anecdotal evidence indicates that home electronics stores and other retail stores provide a lot of consumer credit to the market.** These stores not only sell their products on credit, but some also offer credit cards and even loan their customers cash in addition to their purchase. Data is not available on this market, however, these home electronics stores are one of the main users of credit information. Informconf, the main credit bureau in Paraguay, reported that in May 2014 and June 2014 commercial stores made up 15% and 12% of the inquiries.

**There are six pawnshops registered with SEPRELAD, but according to the Economic Census there are 349 pawnshops in the country.** Because the borrower physically provides collateral upfront, pawnshops have the advantage of providing immediate credit. People use pawnshops to address urgent needs, such as emergencies or to pay important bills. As stipulated by the law governing pawn shops, the maximum rate charged by pawnshops is the maximum interest rate allowed by BCP<sup>165</sup>, plus an additional cost that can go up to 50% of the maximum interest rate to cover the security

<sup>165</sup> 56.16% in 2014

and other expenses related to operating a pawnshop, i.e. the total rate could be up to 84.24%.

**Middlemen are the main informal lenders to rural agriculture microenterprises.** Middlemen travel from farm to farm consolidating agriculture products to resell in wholesale markets. These middlemen often lend money to their producers at the beginning of the season and collect the loan payment with interest at the time of purchasing the agriculture products. The interest rates are known to be high, however this market is completely unregulated, and so no data exists.

**Moneylenders are a major provider of loans to vendors in markets, especially in urban areas.** These moneylenders offer daily loans. They visit their clients to disburse the loans in the morning and return in the afternoon to collect their loans plus interest. According to an interview with the Cooperative Mercado 4, which specializes in these types of daily loans to market vendors, moneylenders used to charge an interest rate of 20% per day, but now that the cooperative has entered the market, offering similar loans at 10% per day, the money lenders charge 10% as well.

## OVER-INDEBTEDNESS

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**Anecdotal evidence suggests that over-indebtedness is becoming a serious issue among certain segments of the population, particularly salaried workers living in urban areas.** However, the NPL rate remains low (2.5 percent in the banking sector<sup>166</sup>) and that only 4 percent of borrowers report obtaining loans from more than one source<sup>167</sup>, which suggests that if there is a problem of over-indebtedness, it is not systemic and not affecting large segments of the market.

**The non-performing loans (NPL)<sup>168</sup> rate within the formal sector remains low, but it is important to note, that because banks and finance companies can sell portions of their loan portfolios, it is difficult to tell the true state of over-indebtedness from their statistics.** Finance companies and banks have an NPL of 5.18% and 2.08% respectively, for a total average rate of 2.27% (Figure 18). Cooperatives (Type A only) have a NPL of 7%<sup>169</sup> and microfinance has an NPL of 3.4%<sup>170</sup>. A person could still take new loans out to pay other loans,

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<sup>166</sup> BCP 2014

<sup>167</sup> EIF 2013

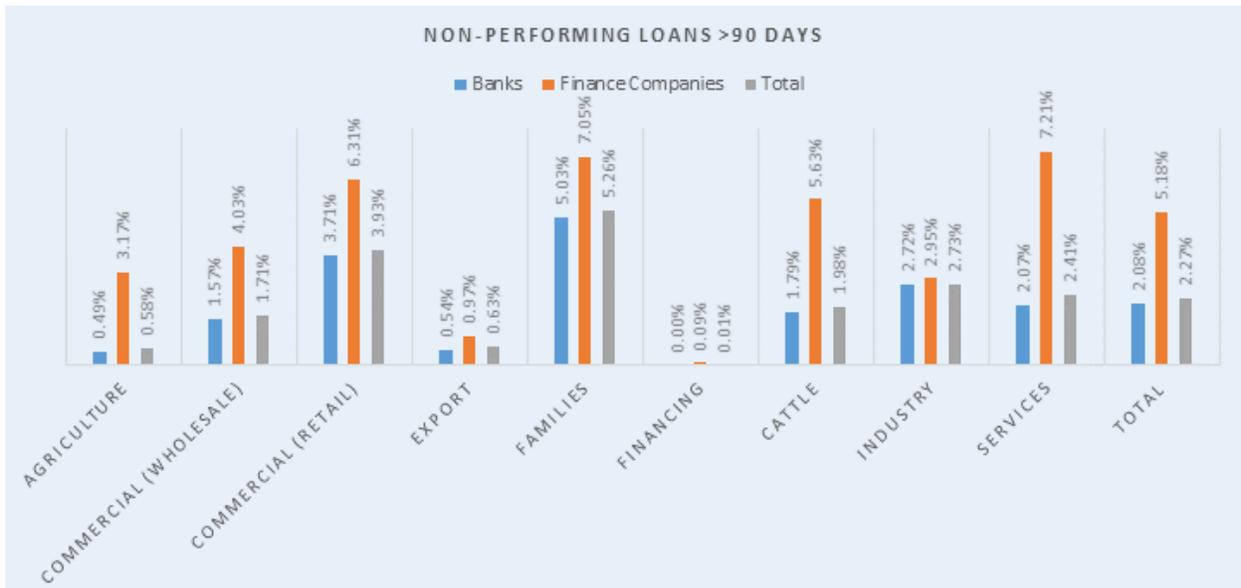
<sup>168</sup> BCP monitors NPL >90 days

<sup>169</sup> Source: INCOOP 2013

<sup>170</sup> Source: UNDP, *Microfinanzas en Paraguay: Análisis de la Oferta y la Demanda*. 2010

and until this person defaults on a loan, it is difficult to capture the issue of over-indebtedness without a more robust and comprehensive credit information system and/or other measurements.

**FIGURE 18: Non-performing loans**



Source: BCP, data for April 2014.

## CREDIT INFORMATION BUREAU

**A functioning credit information system is critical to enable robust and efficient credit market.** Credit information allows financial institutions to make informed decisions about lending based on credit history, which then allows these institutions to offer loans to individuals and micro and small enterprises that do not have traditional forms of collateral to access loans. It also alleviates moral hazard and adverse selection and overall creates a more enabling environment for lending. The two main sources of credit information in Paraguay are Informconf and the BCP Public Credit Registry (*Central de Riesgo*).

**Founded in 1963, Informconf, a private company that was recently bought by Equifax, is the only credit information database available to all credit providers including even home electronics stores, nonprofit MFIs, and private MFIs.** In practice, the information that is provided by Informconf is the history of credit report requests (the entity that requested the data and the date of the request), loans that are delinquent, and information about legal actions that have been taken against the person (for financial reasons only). Though the Informconf system can store positive information, financial institutions do not report positive information, reportedly for fear of having their good clients stolen. Anecdotal evidence suggests that there may be issues with the quality of the data held by Informconf, for example individuals appear multiple times or there is inaccurate data. Informconf contains 40% of the adult population and 13% of the firms in Paraguay (Table 11).

**All banks and finance companies are required to report their lending to individuals and enterprises monthly to the BCP for the Public Credit Registry.** With the information in the Public Credit Registry, the BCP produces reports that include the total amount owed by each person or business to a bank, as well as the person or business' worse payment rating among all outstanding loans to a bank. The information does not give a complete picture. Again there is no positive information and more importantly, this database covers loans only the entities supervised by the BCP, so excludes cooperatives, casas de credit, and all others. Additionally, the information in this registry is available only to banks and finance companies. Because the data is updated only monthly, financial institutions are not able to adequately assess a potential client that could potentially be requesting multiple loans at the same time. The Public Credit Registry contains 18% of the adult population and 4% of the firms in Paraguay (Table 11).

**Table 11: Comparison of Credit Information**

Characteristics	Informconf	BCP Public Credit Registry
Has data on both firms and individuals?	Yes	Yes
Has positive and negative data?	No	Yes (however the positive data to which this refers is still extremely limited)
Has data from retailers as well as financial institutions?	Yes	No
Has more than 2 years of data?	Yes	No
Has data on loans of less than 1% of income per capita?	Yes	Yes
Can borrowers inspect their data?	Yes	Yes
<i>Number of individuals in database</i>	<i>1,892,210</i>	<i>858,162</i>
<i>% of adult population covered</i>	<i>40%</i>	<i>18%</i>
<i>Number of firms in database</i>	<i>29,962</i>	<i>8,389</i>
<i>% of firms covered</i>	<i>13%</i>	<i>4%</i>

Source: World Bank, *Doing Business 2014: Paraguay*. Adult population from DGEEC, Number of economic units from DGEEC, Economic Census 2011

**There are a number of other initiatives to create new credit bureaus,** including: Informconf is creating a specialized database for select institutions including banks, finance companies and cooperatives that will share positive client information; INCOOP has already begun to implement a credit registry (*Central de Riesgo*) only for cooperatives, and CENCOPAN<sup>171</sup> is creating a credit bureau of select cooperatives. These dispersed

<sup>171</sup> A second tier cooperative owned by saving and credit cooperatives.

and fragmented initiatives indicate that the current credit information available in the market is insufficient; institutions are especially seeking access to more positive information on potential clients. However, to effectively assess the creditworthiness of a client, lenders also need to be able to access information across all lending sectors. It is important that the existing credit information systems take steps to improve positive information reporting as well as allow sharing among all players.

## CONCLUSION

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**There are significant inefficiencies in the credit market.** Informal enterprises and individuals without formal employment face major barriers to obtaining credit. To increase access to credit and overall efficiency in the market, the credit bureaus in Paraguay- Informconf and the credit registries housed by BCP and INCOOP - need to be improved. The reporting of positive information to Informconf, including good loan repayment, should be encouraged through measures that deter cherry-picking good clients and incentivize more consistent reporting of information. Informconf's database also needs greater quality control so that the market can rely on the information provided. The credit registries at BCP and INCOOP should collect more client data and should communicate with one another to provide a more complete picture of a client's debt.

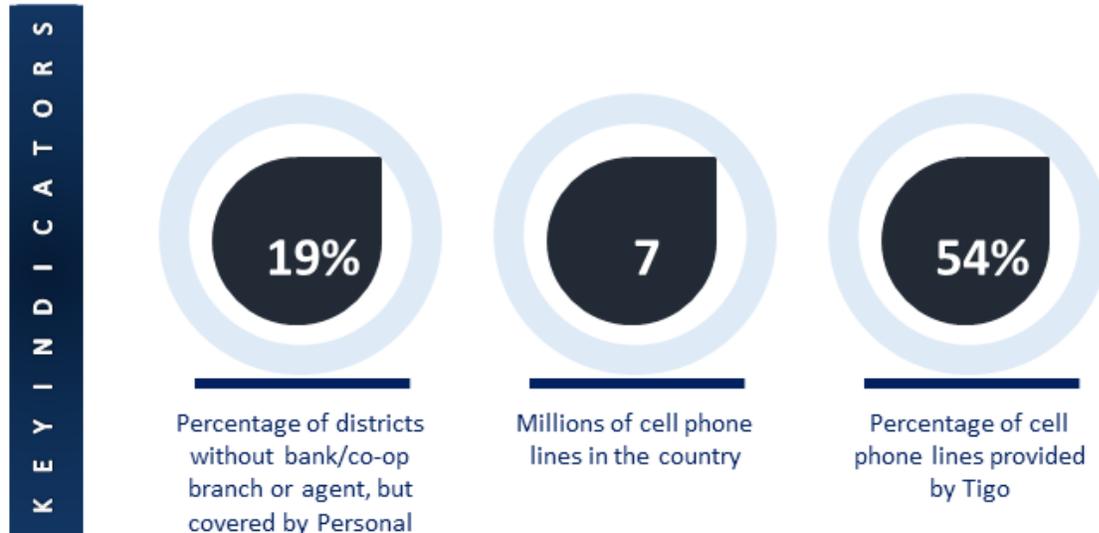
**MSME access to finance should be supported through the implementation of the credit guarantee fund whose project of law is to be approved in the coming months, the development of new microfinance products such as leasing and factoring, the establishment of a collateral registry, and as stated above, the improvement of the credit bureau.**

**There is a large semi-formal sector that is operating in parallel to the formal financial sector.** Lending in the semi-formal sector (such as casas de crédito, commercial stores, and pawn shops) should be monitored even if it is not actively supervised. Similarly, the NPL rate of financial institutions can be misleading as entities regularly sell off portions of their high-risk loan portfolio to entities outside of the purview of the BCP. The BCP should monitor these loans even if they are sold to non-regulated entities.

**Anecdotal evidence suggests that over-indebtedness is becoming a problem in Paraguay; however, adequate data does not exist to support this.** Authorities should measure and monitor over-indebtedness in the country. Monitoring the semi-formal

credit markets, as described above, will certainly allow the authorities to have a clearer picture of the behavior of the credit market and other factors that can lead to systemic over-indebtedness. Authorities can also consider measuring over-indebtedness from the demand side through household surveys.

**The formal credit market in Paraguay requires a high level of documentation (i.e. proof of employment, ID, RUC, etc.)** The government should make an effort to facilitate ID coverage for all Paraguayans, especially in rural areas where one in ten adults would not be able to open even a simplified account for lack of national ID. The government should also revisit the requirements and administrative procedures for businesses to obtain their RUC and make the process more accessible (both physically and administratively) for rural, micro, and small enterprises.



**Payments, transfers, and remittances are often considered “gateway” financial services.** In Paraguay, as in other countries, many of the unbanked actually use these services for example to receive money from family living in other parts of the country or internationally or to pay utility bills.

**There are nine companies registered with SEPRELAD as providers of money transfer services<sup>172</sup>.** The players in the payment and money transfer market are diverse, from MNOs to transportation companies. In addition to the companies registered with SEPRELAD, banks, finance companies, cooperatives and foreign exchange companies often offer money transfer services. With this diverse group of actors, the market is characterized by dynamic networks with overlapping use of agents and outreach into low access areas throughout the country.

**The BCP has been working with the World Bank since 2007 to implement a Real Time Gross Settlement System (RTGS) and Automated Clearing House (ACH) system to make payments electronic between financial institutions.** This electronic system

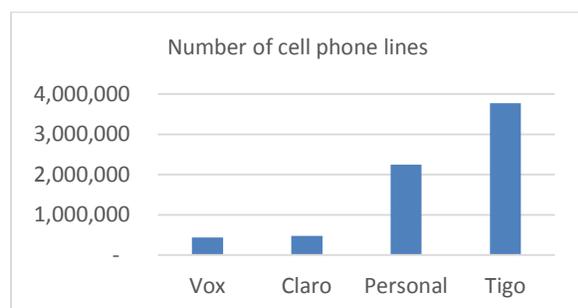
has enabled electronic payments, reducing the cost of transactions, and increasing the efficiency of the financial system overall.

## ELECTRONIC MONEY AND DOMESTIC MONEY TRANSFERS

**Twenty-nine percent of adults report having sent money to or received money from family or friends living in a different area within Paraguay in the past 12 months.** Mobile money is the most popular way to send money or receive money from family or friends living elsewhere in Paraguay. According to the EIF 2013, approximately 80 percent of senders and 70 percent of receivers report having used a mobile money service for these transactions. About 10 percent of those sending or receiving domestic remittances report using money transfer services and fewer than 5 percent report using banks.

<sup>172</sup> Bepsa, Fortaleser, Direccion Nacional de Correos del Paraguay, UB Sociedad Anonima, Mobile Cash Paraguay, Latin Travel CIA. LTDA., Konecta S.A., Nuestra Señora de Asunción, DHL Paraguay

**FIGURE 19: Mobile Network Operators**



Source: La Nación, Tigo y Personal dueños del 87% de líneas móviles, 18 de enero 2014

There are 7 million cell phone lines in Paraguay which, with a population of 6.6 million, is on average more than one line per person. Based on anecdotal evidence, people often maintain two cell phone accounts to take advantage of the different promotions offered by each company. In contrast, in some families, especially in rural areas, cell phones are often shared among multiple people in a household.

Recent regulation<sup>173</sup> requires an ID to obtain a new cell phone number (SIM). This ID requirement presents some barriers to access for people who do not have valid national IDs and may encourage the sharing of cell phone lines. However, the ID requirement allows for the possibility of opening simplified bank accounts according to the regulation on this type of accounts.

Tigo and Personal are the two largest MNOs in Paraguay and are the only ones that have applied and are in the process of being analyzed as potential EMPEs. Together, Tigo and Personal account for 87% of the cell phone market- Tigo with 54.4% and Personal with 32.3%-. Tigo has agents in all but 6 districts in the country. Personal has agents in 170 (or 76%) of the 224 districts in the country (Figure 20).

Tigo has been offering electronic money services since 2008, focusing mostly on over the counter (OTC, i.e. no value is stored on an account) domestic transfers between clients. In 2012, Tigo rebranded its electronic money services as Tigo Money, introducing an electronic wallet (stored value) and offering a broader range of services including domestic and international transfers, payment of utilities and other bills, payment at commercial businesses, and now with an alliance with Banco Familiar, Tigo also facilitates the application, disbursement and repayment of microloans.

<sup>173</sup> Resolution 1310/2007 from CONATEL

Personal has been offering its electronic money services also since 2008. The company launched a specific person-to-person OTC transfer service called Envios Personal in 2012, which has been their most popular electronic money product. Personal's services include payment of utility and other bills, and payment at commercial businesses.

The volume and value of these transactions are substantial. Tigo performs approximately 2 million Tigo Money transactions per month, including 7,000 bank loan transactions per month. Approximately 150,000 clients pay bills using Tigo Money. In the month of March 2014, Personal performed approximately 8,000 bank-based transactions worth 1,157 million Gs. and approximately 22,000 over-the-counter domestic money transfers worth 6,494 million Gs. By law, both Tigo and Personal store their mobile money float in a trust fund with financial institutions regulated by the BCP.

Unlike Tigo, Personal has partnered with five different banks (Banco Atlas, Banco Continental, Financiera el Comercio, Interfisa Financiera, and Vision Banco) to open a simplified bank account and allow clients to manage these accounts through their cell phone and make deposits and withdrawals through their network of agents and ATMs. The electronic payments regulation allows up to Gs. 2.8 million per transaction and 200 USD maximum per month without need of a bank account. When a Personal client surpasses these limits, Personal prompts the client to open a Billetera Personal using one of its five bank partners. From the perspective of the clients, this is essentially an electronic wallet backed by a bank. As of May 2014, Personal had opened 23,124 bank-backed Billetera Personal accounts<sup>174</sup>.

Both Tigo and Personal are pushing to move beyond just OTC transactions, which internationally, are considered "low quality" use of mobile financial services, as customers are not required to be registered and money is not stored in the account. This transition to registered electronic wallet accounts has been gradual. Market research would have to be conducted to identify the main barriers.

In terms of outreach, Tigo and Personal have networks of agents that reach into some of the most remote areas of the country. It is not unusual for agents to serve as agents for both Tigo and Personal. While customers cannot use their electronic wallets to send money to customers of the other carrier, anyone

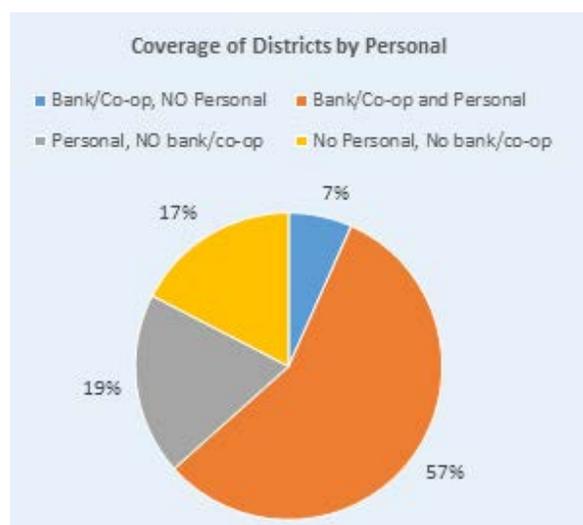
<sup>174</sup> Data provided by Personal May 2014

can send money to a Tigo or Personal customer as an over-the-counter transaction at an agent.

**Both Tigo and Personal have various classifications of agents according to what types of transactions they are authorized to perform.** Tigo, for example, has 33,000 agents in total authorized to sell airtime. Of these, only 2,400 are authorized as Tigo Money agents, and of these only 300 are authorized to perform bank-based transactions, i.e. disbursement and repayment of bank loans. The reason for this stratification of Tigo agents is the varying level of risk implied by the different types of allowed transactions. Personal agents extend financial services to 58 districts (26% of all districts in the country) that banks do not serve (no branch or agents) (Figure 20).

**FIGURE 20: Personal Agent Outreach**

The percentage of districts with presence by Personal agents or bank/cooperative branches/agents



Source: Personal, 2014

**Tigo and Personal have similar cost structures.** They both charge 4% for money transfers. Depositing money into an electronic wallet is free, but withdrawing it costs 4%. If the money in the electronic wallet is used to make purchases in commercial stores or to pay bills, the customer does not pay anything (the fee is generally paid by the business receiving the payment) (Table 12).

**Table 12: Cost of e-money transactions**

Transaction	Cost
Deposit money into account	Free
Withdraw money from account	4%
Transfer person-to-person	4%
Pay utility and other bills	Free
Purchases in commercial stores	Free

Source: Information provided by Tigo and Personal April 2014

**Based on interviews with the businesses providing Tigo and Personal electronic money services, users of e-money are largely unbanked and seem to have integrated e-money into their regular financial management.** According to the staff, the same people tend to come every day or at least once a week. For example, clients may be business owners who deposit money into their electronic wallet to pay their employees using mobile money or workers come to deposit small amounts of cash into their electronic wallet.

**Aside from the MNOs, the other two main providers of domestic person-to-person money transfer services are a transport/logistics company and foreign exchange companies.** Western Union also offers domestic remittances (as well as international), but works exclusively through its network of agents. Most banks also offer domestic transfer services from branch to branch within their network. Generally, the cost of services by the non-MNOs is lower. (Table 13) Despite these other players and their lower costs, MNOs dominate the money transfer market and their share of the market is only growing. This is because the MNOs have a much more extensive agent network and as stated before almost everyone in the country has access to a cell phone, which makes MNO money transfer services more convenient and accessible than any of the alternatives.

**Table 13: Domestic Person-to-Person Money Transfers**

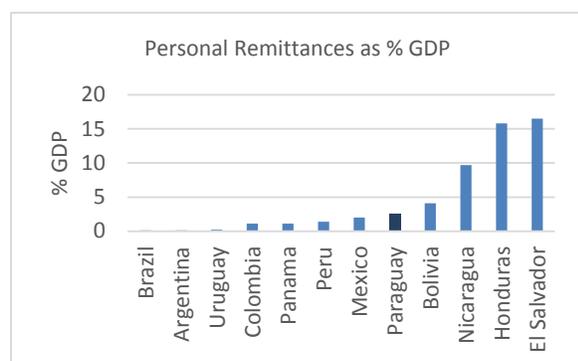
Service Providers <sup>175</sup>	Cost to send money (as a percentage of amount sent)	Number of points of service in the country
NSA	3-4%	180 offices
Cambios Chaco	0.39%-1.43%	30 offices
Western Union	1.99%	n/a
Konecta/Personal	4%	2,724 Points of sale
Mobile Cash/Tigo	4%	33,000 agents
Banks	various	515 bank branches <sup>176</sup>

Source: Meetings with the respective entities

## INTERNATIONAL REMITTANCES PAYMENTS

International remittances received by people in Paraguay in 2012 represented 2.5% of GDP<sup>177</sup> (Figure 21). The volume of remittances has been increasing over the years and in 2012 reached \$444 million USD<sup>178</sup> (Figure 22). Remittances mostly originate from Paraguayans who have moved to Brazil, Argentina, and Spain to work.

**FIGURE 21: Cross-country experience with international remittances**



Source: World Bank Database

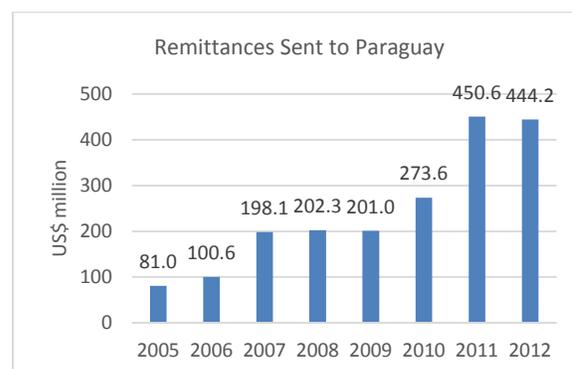
<sup>175</sup> The companies included in this table are those for which data was readily available. The other service providers are: BEPSA/Dinelco, Fortaleser, Correos de Paraguay, UB Sociedad Anonima, Latin Travel, DHL

<sup>176</sup> Most banks offer domestic transfer services. A more complete survey of banks would have to be done on this service; 515 is the total number of bank branches in the country.

<sup>177</sup> World Bank, <http://data.worldbank.org/indicator/BX.TR.F.PWKR.DT.GD.ZS>

<sup>178</sup> World Bank, Programa de Aplicación de los Principios Generales para los Mercados de Remesas de América Latina y el Caribe: Paraguay, March 2013

**FIGURE 22: International remittance over time**



Source: World Bank, Programa de Aplicación de los Principios Generales para los Mercados de Remesas de América Latina y el Caribe: Paraguay, March 2013

The largest provider of international remittances is Western Union. Western Union works only through its agents in Paraguay (the local headquarters is in Argentina), which include NSA, Financiera El Comercio, CIS, Pago Express, and Interfisa. Tigo is also an agent, but of a more limited type as this MNO offers Western Union international remittance services only through its mobile phones. The cost of international remittances with Western Union is 4.5% to 7% of the amount sent.

One of the remittance corridors to Paraguay is from Brazil. The average total cost to send 200 USD from Brazil to Paraguay is \$11.77 USD, or 5.88%<sup>179</sup>. On average, banks charge \$18.10 USD (or 9.05%) and money transfer operators on average charge \$8.14 USD (or 4.07%)<sup>180</sup>.

## PERSON TO BUSINESS PAYMENTS

Companies specializing in payment processing allow people to pay their bills in cash at the various points of service. The network of payment processors is extensive and reaches into remote areas of the country. The leader of this type of service is Aqui Pago<sup>181</sup>. The second provider of this type of services is Pago Express<sup>182</sup>.

**Founded in 1998, Aqui Pago facilitates payments to public and private entities.** In 2013, Aqui Pago

<sup>179</sup> World Bank, Remittance Prices Worldwide. Data updated February 7, 2014

<sup>180</sup> World Bank, Remittance Prices Worldwide. Data updated February 7, 2014

<sup>181</sup> Aqui Pago is the brand/service owned by PRONET S.A

<sup>182</sup> Pago Express is the brand/service owned by Netel S.A

facilitated nearly 20 million transactions valuing over \$947 million USD. These include paying for public utilities, insurance, loan payments, and school fees. Aqui Pago has a total of 2,670 agents covering all the departments in the country, of which 1,576 are points of sales authorized to perform the full set of financial transactions. These points of sales are banks, cooperatives, pharmacies and other stores.

## OTHER PAYMENT SERVICES

**BEPSA (Dinelco) and Bancard (Infonet) are the main providers of ATMs, POSs, and credit cards.** Most of the commercial banks and even some of the cooperatives are stakeholders in Infonet. Banco Nacional de Fomento (BNF) is the main stakeholder of Dinelco.

**Dinelco and Infonet ATMs and POSs are not interoperable.** In areas where bank and ATM presence is scarce, this lack of interoperability can have a significant impact on the accessibility of the banking system. For example, some recipients of government transfers are paid through accounts with Banco Nacional de Fomento; however, the closest ATMs in some of these areas belong to Financiera El Comercio. Beneficiaries have to travel all day to reach the closest BNF ATM. Interoperability between the BEPSA and Bancard systems would facilitate greater financial inclusion, especially in areas with little bank coverage.

## GOVERNMENT TO PERSON PAYMENTS

**Linking government payments to bank accounts improves the efficiency and security of the payments, increases financial inclusion, and helps introduce significant capital into the banking system.** Brazil estimates that a conversion of all government payments into electronic form will save the economy 1% of GDP<sup>183</sup>. In Paraguay, transferring government payments through the banking system also presents significant savings, though the exact amount of savings has not been calculated as such. Currently all public employees are paid through bank transfers. On the other hand only 22% of adults who are employed full time report receiving wages through a bank account or payment card<sup>184</sup>. Paying salaries through banks would help increase financial inclusion, increase security, and potentially reduce transaction costs for employers, as banks charge neither the sender nor the receiver for

<sup>183</sup> Source: Study from the Central Bank of Brazil.

<sup>184</sup> EIF 2013

direct deposits of salary payments.

**In 2000, the Paraguayan government began paying public employees electronically through bank accounts largely with BNF, but a portion is paid through Itau, as well as a number of other banks.** The December 2013 salaries plus bonuses that were paid electronically was worth 545,129 million Gs<sup>185</sup> (Table 14). Payments are transferred through seven institutions- 76% of the payees (employees and some retirees) are paid through BNF, 22% through Itau, 0.89% through Regional, 0.44% through Atlas, 0.41% through Familiar, 0.20% through Continental, and 0.14% through BBVA<sup>186</sup>.

**Table 14: G2P Programs**

Program	Number of beneficiaries	Value per month	Status
Tekopora (CCT)	80,262	16,052 million Gs. (approx. 200.000 Gs./family)	<i>Programa Kakuua</i> is a pilot program aiming to link 60,000 beneficiaries with accounts at BNF
IPS	42,090	Approx. 92.482 million Gs.	Approx. 50% receive their payment through a bank, including ITAU, Vision Banco, and BNF
Caja Fiscal	54,489	149.700 millon Gs.	The majority receive their payments through BNF
Public employees	396,318 <sup>187</sup>	545.129 millon Gs. (Dec. 2013)	All public employees are paid through BNF, Itau, among others.

Source: Tekopora: Secretaría de Accion Social website, IPS: Ministerio de Hacienda – Social Security Department

**IPS beneficiaries are also beginning to be paid through private banks and more recently BNF, but**

<sup>185</sup>

Source:

[http://www.economiavirtual.com.py/index.php?option=com\\_k2&view=item&id=7266:este-28-se-inician-desembolsos-de-salarios-a-trav%C3%A9s-del-bnf&Itemid=386](http://www.economiavirtual.com.py/index.php?option=com_k2&view=item&id=7266:este-28-se-inician-desembolsos-de-salarios-a-trav%C3%A9s-del-bnf&Itemid=386)

<sup>186</sup>

Source: Data provided by Ministerio de Hacienda July 2014

<sup>187</sup>

Source: Data from Ministerio de Hacienda updated June 30, 2014

**the roll-out of this program has been slow.** The number of beneficiaries receiving pension payments from IPS is 42,090, as of July 2014 approximately half of the IPS retirees were still collecting their pension at in the IPS offices. Caja Fiscal has 54,489 beneficiaries receiving pensions, as of July 2014, the majority of Caja Fiscal retirees were collecting their monthly payments through a payment account with BNF.

**The largest conditional cash transfer (CCT) program in Paraguay is Tekopora.** This program has 80,262 beneficiaries, to whom 16,052 million Gs. is paid each month. As part of a pilot program called Kakuaa, the Secretary of Social Action (SAS) has engaged *Fundacion Capital* to help provide support to 60,000 beneficiaries who will be paid their transfers through a payment account with BNF. The foundation provides training to beneficiaries on how to use ATMs and to improve their overall financial literacy.

**To further improve financial inclusion, the Foundation and the SAS are working with BNF to convert the Kakuaa beneficiaries' payment accounts into basic bank accounts to allow them to accumulate savings in these accounts.** Additionally, for those beneficiaries living more than 20 km from an ATM or BNF branch, the foundation and the SAS are also working on a strategy to deliver these transfers

through mobile phones. This component of the project is still in initial phases and has not yet begun implementation.

**Converting government-to-person (G2P) and government-to-business payments into electronic form is generally the easiest way to promote e-payments in a country and also has a positive impact on financial inclusion, especially if payments can be linked to a bank account.** Paraguay should continue to expand the use of electronic payments for G2P transfers.

#### **Box 4.1 Brazilian Experiences with linking G2P payments to financial system**

Government payments to person (G2P) payments affect various economic sectors and segments of the population. G2P payments may include conditional cash transfers, pensions and social security, and payroll, among other types of payments. In most countries, the value of these transfers is significant and performing these transfers and payments through the formal financial system, not only improves efficiency, safety and transparency, it can also improve financial inclusion.

In Brazil, Bolsa Familia Program is the country's largest cash transfers program, with 12.4 million beneficiaries. The program was created in 2003 with the objective of combating hunger and poverty in Brazil. The program provides low-income families with monthly transfers ranging from US\$7 to US\$45.

Recipients are able to choose between two electronic methods of receiving the transfers: 1. through a Social Card- a virtual account that does not allow deposits or indefinite stored value- or 2. through a simplified bank account. Both options are operated by Caixa, the public bank with a history of serving low-income clients.

Beneficiaries can access their payments at any of Caixa's more than 36,000 access points which are present in all the municipalities of Brazil. These access points include bank branches, banking agents, lottery points, and ATMs.

By switching to the Social Card, administrative costs to the government decreased from 14.7 percent to 2.6 percent of the value of the grants disbursed. (But a large share of the savings came from consolidating several cash transfer program payments into one payment account—not just from switching to electronic benefit cards.)

Furthermore, it is estimated that the administrative fees associated with paying beneficiaries through the simplified account option is 31% less costly than the administrative fees associated with paying through the Social Card. As of October 2011, only 15% (or 2 million) of the beneficiaries were receiving their payments through the simplified account option. Because of the profile of the Bolsa Familia beneficiaries, these bank-linked electronic payments are often the beneficiaries' first experience with a formal bank account and can serve as an important gateway into the formal financial sector.

Source: World Bank, *General Guidelines for the Development of Government Payment Programs*; CGAP, *CGAP G2P Research Project: Brazil Country Report*

## NETWORKS

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**These payment service providers have successfully built a robust network of agents.** Agents often represent multiple companies at once. Additionally, it is not uncommon for these different payment providers to form alliances with other companies to expand the reach of their business and enhance the range of services offered to their clients. For example, Pago Express is an agent of Western Union and Personal; Personal in turn is now partnering with banks to offer their clients basic bank accounts.

**MNOs have developed extensive networks of agents that could facilitate greater outreach of financial services throughout the country.** Personal agents are present in 43 (19% of all districts) districts that have neither a bank or cooperative branch nor a bank agent. Tigo agents are present in virtually all of the districts of the country. As these mobile carriers expand their electronic money services by allowing more of their agents to perform these types of transactions and by registering more electronic wallet clients, this presence in low-access areas can have a significant impact on financial inclusion in the country. Additionally, by partnering with these MNOs, financial institutions can take advantage of the expansive networks that the MNOs have built to have presence in even very remote areas of the country. As banks begin to allow people to open simplified bank accounts and manage their accounts using mobile devices and agents, some clients may never have to actually visit a bank branch or ATM, making the banking system accessible to anyone with a mobile phone.

## CONCLUSION

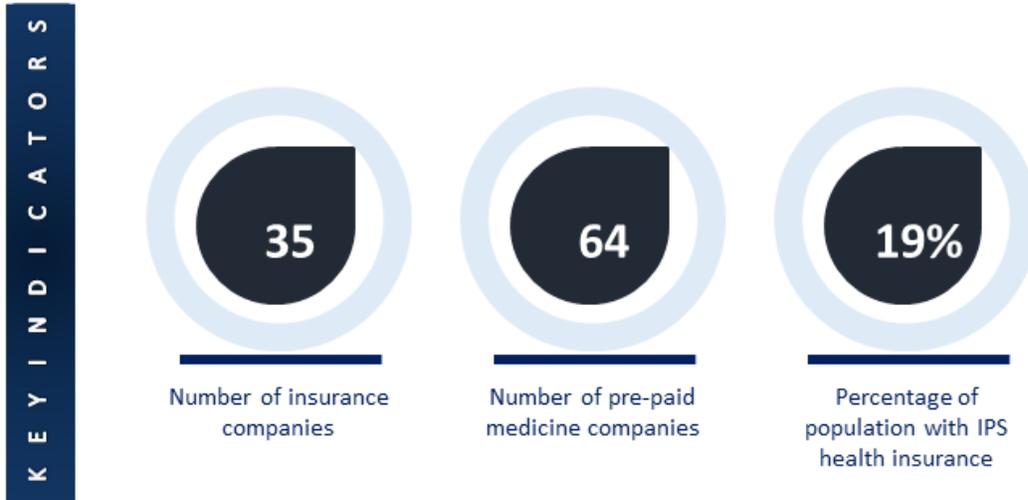
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**Because of the extensive network of MNO agents and the pervasiveness of cell phone, e-wallets which allow customers to safely store value in their mobile accounts have significant potential to improve financial inclusion among under-served populations.** Uptake of e-wallets has been slow. Tigo and Personal should continue to promote their respective e-wallet products and encourage their clients to move away from exclusively OTC transactions.

**To increase the efficiency of payments and to potentially increase financial inclusion, all public sector entities, including the pension funds, as well as private businesses should be encouraged to pay their beneficiaries and employees through electronic transfers.** This would improve the efficiency and security of these payments and contribute to financial inclusion.

BNF currently facilitates the majority of government transfers, but an assessment should be made as to whether there are other banks may be able to provide payments services more efficiently.

**The two primary networks of credit/debit cards, POSs, and ATMs in Paraguay are BEPSA (Dinelco) and Bancard (Infonet).** These two systems are not interoperable. BEPSA services BNF, Tigo, and Personal while Infonet services most of the commercial banks, finance companies, and cooperatives. Making these systems interoperable would significantly impact access to financial services in areas with low bank coverage, where ATMs are often a significant distance apart. Interoperability could save clients' money and time when faced with the necessity of visiting an ATM to withdraw money and would in general make the formal financial system available to all potential clients irrespective of the financial service provider.



Insurance allows individuals to manage risk and avoid catastrophic expenses related to health emergencies, natural disasters, accidents, and sudden death. Empirical evidence suggests that uptake of insurance significantly alters the behavior of individuals, often resulting in more profitable investments and better resistance to economic shocks.

The insurance market in Paraguay tends to serve the “top of the pyramid.” The EIF found that poorer and less educated segments of the population were significantly less likely to have insurance than the rest of the population. Unfortunately, the poor and less educated are also less likely to save for emergencies due to lack of resources, low access to safe places to save and possibly lower levels of financial literacy. Anecdotal evidence suggests that there is unmet demand for insurance products among these segments of the population.

There are 35 insurance companies in Paraguay. The minimum capital requirement for an insurance company is \$500,000 USD,<sup>188</sup> competition levels should be visited as there might not be enough variations in business models among insurance companies.

However, the insurance market has continued to grow in recent years. In 2007 the premiums collected were \$95.4 million USD and the claims paid were \$40.3 million USD. By 2013, the premiums collected had more than tripled to \$342.4 million USD and claims had grown to \$155.2 million USD.

Nearly half (48%) of the premiums that insurance companies collected in 2013 were for auto insurance<sup>189</sup>. (Figure 23) Nonetheless, only 25% of the cars in Paraguay are actually insured. Paraguay is the only country in South America that does not have mandatory auto insurance<sup>190</sup>.

In terms of premiums, the second largest insurance market is life insurance with 12% of the premiums. A large portion of life insurance policies are group policies which beneficiaries generally have through either their employment or linked to a loan from a financial institution. Until recently, banks used to embed the cost of life insurance policies into the cost of their loans, making life insurance mandatory. However, the Superintendence of Banks has taken steps to improve transparency around this practice and has introduced

<sup>188</sup> Law No 827/96 on Insurance

<sup>189</sup> Source: Luque Portela (2013)

<sup>190</sup> A controversial law making auto insurance obligatory in Paraguay (Law 4950) was passed in 2013, but was subsequently repealed.

new disclosure requirements. These life insurance policies usually only cover the debt still owed to the bank in case of death or incapacitation. Banks are beginning to offer additional life insurance that covers more than just the debt that clients can choose to buy or not.

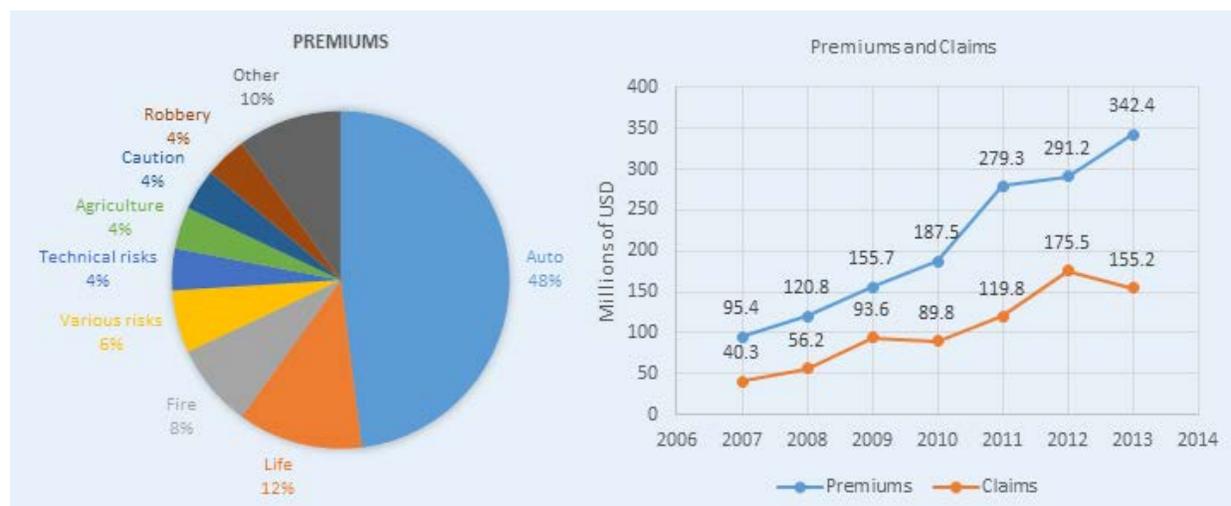
**Agriculture insurance (or crop insurance) makes up only four percent of the insurance market, but with “climatic phenomenon,” becoming increasingly regular, there seems to be a growing need for this type of insurance.** Family farms and large business farms alike are affected by floods, droughts, hail storms, winds, and freezing temperatures. Multi-risk climate insurance products as well as insurance products for only specific climate risks are offered by some insurance companies. As of 2012, only 6 of the total of insurance companies offered some kind of agriculture insurance (Box 5.1). It is fairly common for medium and large agriculture producers to use these insurance products, but small family farms are not as well covered. There are not a lot of agriculture insurance products tailored to the small family farms, these family farms may not be able to afford insurance, and there seems to be an overall low level of awareness of how to get this type of insurance, but anecdotal evidence suggests that small family producers are extremely concerned about the risk of climate change and the volatility this introduces to their income. Only two insurance companies offer agriculture

insurance to the small farms, but even their outreach is limited. Uptake of agriculture insurance could be increased by linking agriculture insurance with agriculture loans in the way that life insurance is linked to credit cards, personal loans, and other types of loans. Insurance should not be required, but as an institution, banks and cooperatives should promote agriculture insurance to their borrowers and encourage their clients to purchase insurance as a normal part of the loan application process.

**The World Bank, in partnership with the government of Paraguay (the Ministry of Agriculture), recently conducted a study on agriculture risk (including financial risk) and the potential for agriculture insurance.** Next steps are still being defined.

**There are very few micro-insurance products offered by insurance companies.** The only micro-insurance product identified during this study was a life insurance product offered by Sancor to beneficiaries of a microfinance project implemented by the Fundación Paraguaya. This micro-insurance is linked to the microcredit and not offered as a stand-alone product. Anecdotal evidence indicates that there is little awareness of micro-insurance among insurance companies.

**FIGURE 23: Insurance premiums and claims**



Source: Luque Portela (2013)

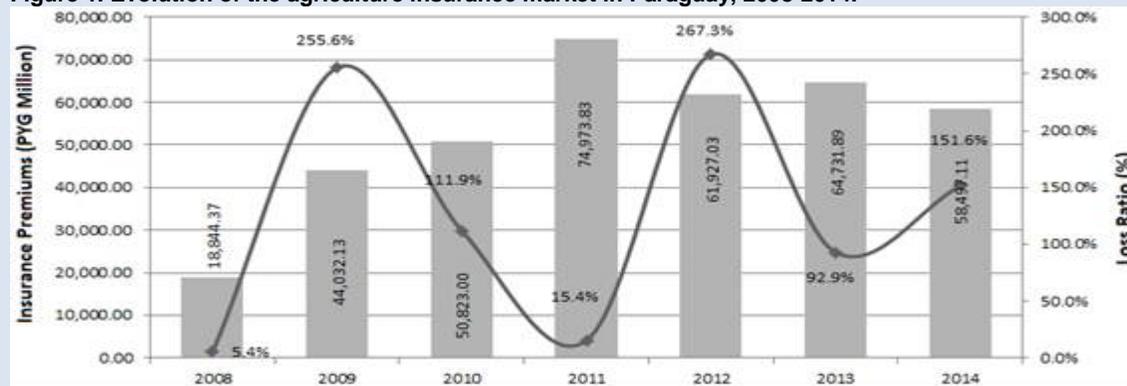
### Box 5.1 Agriculture Insurance in Paraguay

Agriculture insurance products were first introduced in mid-80s in Paraguay (IICA, 2010); however, its development was discontinued due to the poor financial results obtained at the time. It was not until the year 2008 that this type of insurance was re-launched by the insurance companies, allowing a significant increase in the amount of insurance premiums (Figure 1).

Considering the type of insurance products offered to date, these have been focused on individual multi-peril crop insurance products (MPCI) for soybean, wheat, maize, sunflower, canola, and sugar cane plantations; and on named peril agricultural insurance products for soybean and wheat. In the case of MPCI scheme, it mainly offers: (i) Coverage over costs of investment; and (ii) Coverage over an agreed potential yield.

Unfortunately, the average loss ratio registered during the period 2008-2014 has been greater than 128%; being the 2011-2012 crop season the worst loss ratio ever registered (267.3%). This situation triggered a rise in the costs of premiums, moving from US\$49/Ha to US\$70/Ha during the following crop seasons.

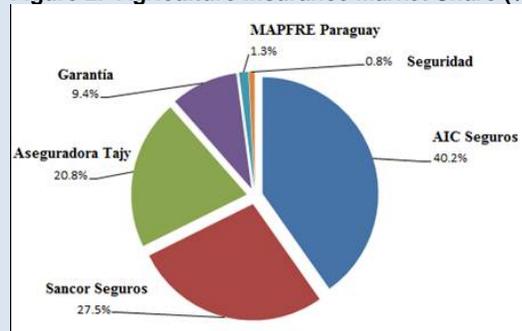
Figure 1. Evolution of the agriculture insurance market in Paraguay, 2008-2014.



Fuente: Axco, 2014; Banco Central del Paraguay

As noted earlier, the country experience with agriculture insurance has been almost exclusively focused on highly technical producers. As of 2012, only six of a total of thirty three insurance companies registered at the Superintendencia of Insurance offered agricultural policies. The agriculture insurance market share, in the year 2012, is shown in the following figure:

Figure 2. Agriculture Insurance Market Share (%), 2012



Fuente: Axco, 2014.

It has not been until 2014 that Aseguradora Tajy is leading efforts to design insurance products that can be applied to provide climate coverage to the more than 150,000 small producers in Paraguay.

Source: Risk Assessment for the Agricultural Sector in Paraguay, World Bank, 2014.

## HEALTH INSURANCE

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**The health system in Paraguay is made up of three broad service providers: Private for-profit entities, the Instituto de Previsión Social (IPS), and Public entities managed by the Public Health and Social Wellbeing System**<sup>191</sup>. For-profit care tends to be of the highest quality of the three providers and is either purchased by individuals or by private and public entities for their employees. The IPS is a publically-run health insurance available to only certain segments of the population. For those without either the private or IPS health coverage, there are public hospital and clinics that attend to the general public.

**There is a marked difference in medical coverage between urban and rural populations.** According to the National Household Survey (EPH) of 2011, a total of 26.6% of the population had medical insurance, 19.0% from IPS and 7.6% through other providers, which includes prepaid medicine and other health insurance. In urban areas, 37.6% of the population has medical insurance while only 10.4% in rural areas have medical insurance (Figure 24).

**For the 74.4% of the population without medical insurance, there is a free public health system.** However, the quality of care provided by these hospitals and clinics is relatively poor, particularly in the rural areas.

**While some insurance companies do offer formal health insurance products, what is usually considered private health insurance in Paraguay is actually a product called “prepaid” medicine.** Prepaid medicine works like insurance but is regulated by the Superintendence of Health within the Ministry of Health and Social Welfare. Five hundred thousand, or approximately 7% of the population in Paraguay, is covered by a prepaid medicine plan<sup>192</sup>. Many companies and even public institutions offer their staff prepaid medicine plans as part of their benefits. These plans tend to serve the middle to upper classes.

**There are 64 prepaid medicine companies**<sup>193</sup>. There are generally three types of prepaid medicine companies: 1. the large prepaid medicine providers are actually privately-owned medical facilities who hire all their own medical staff and may have up to 200,000 beneficiaries, 2. medium-sized prepaid medicine companies may jointly

own medical facilities with other prepaid medicine companies, 3. small prepaid medicine companies act purely as intermediaries. They do not own any medical facilities and basically sell plans on behalf of private hospitals and medical centers. These have about 300-500 beneficiaries.<sup>194</sup>

**The IPS health insurance covered 1.25 million people, or 19% of the country’s population.** This includes private sector salaried workers, workers for decentralized entities and mixed-economy companies, employees of ANDE, public and private sector teachers, domestic service workers, IPS retirees, retired teachers, Veteranos y disabled people of the Chaco War (beneficiary, children and spouse).<sup>195</sup>

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<sup>191</sup> Public health services are also provided by the *Universidad Nacional* and the *Sanidad Militar y Policial*

<sup>192</sup> Source: Superintendence of Health

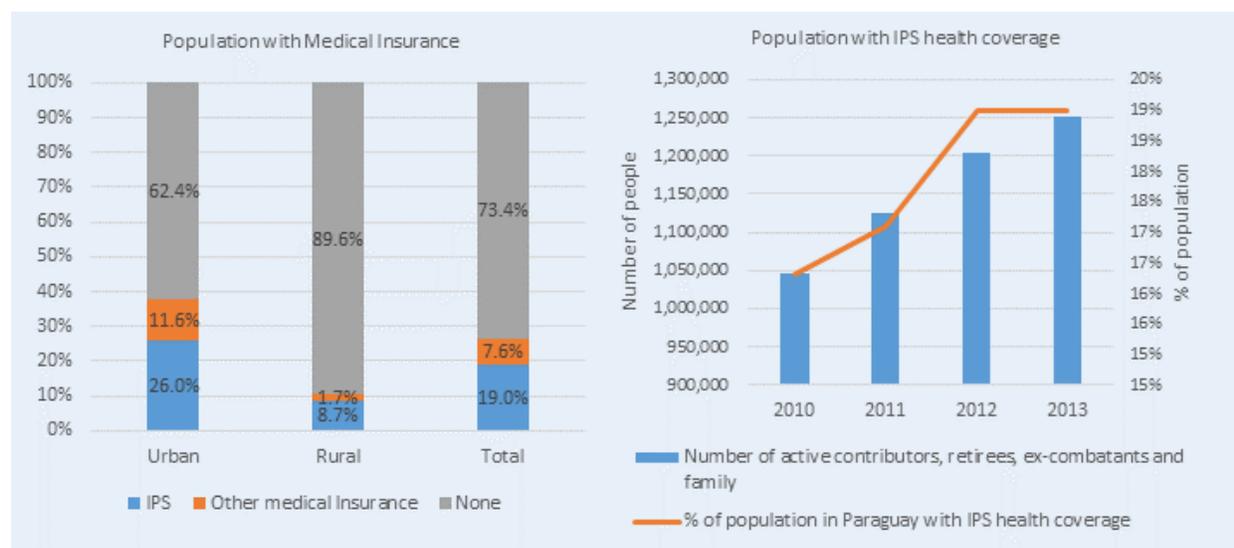
<sup>193</sup> Source: Superintendence of Health

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<sup>194</sup> Source: Interview with ProMed

<sup>195</sup> Source: Provided by the *Ministerio de Hacienda*, July 2014

**FIGURE 24: Medical Insurance coverage through IPS and other providers**



Source: Encuesta Permanente de Hogares, DGEEC, 2011; IPS en Cifras, IPS updated June 2013

## INFORMAL INSURANCE

**All savings and loans cooperatives require their members to pay a monthly fee called “solidarity.”**

This product serves the purpose of micro-insurance, paying set amounts for various life events that would generate expenses for a household, for example, death of a family member, surgery, and disability. There is also a positive social aspect to solidarity in that it also rewards positive event (that could also incur costs as well) such as marriage, birth and school graduations.

**Each cooperative’s solidarity product varies, but in principle they all serve a similar purpose- to provide a small safety net to its members- at a reasonable price.** There is not aggregated data on the solidarity products offered by cooperatives. As an illustration, an example of the coverage of the solidarity product offered by the Cooperative Medalla Milagrosa, whose solidarity costs 6,000 Gs. per month is listed in Table 15.

**Table 15: Example of Solidarity Coverage: Cooperative Medalla Milagrosa**

Event	Coverage (Gs.)
Marriage	150,000
Normal birth of a child (mother)	400,000
Birth of a child (father)	400,000
Cesarean (mother)	600,000
Multiple birth	200,000
Primary School Graduation	100,000
Middle School Graduation	150,000
High School Graduation	250,000
University Graduation	350,000
Death of Spouse	500,000
Death of child	400,000
Death of parents	350,000
Burial for member or spouse	2,500,000
Burial for child	1,000,000
Burial for parent	1,000,000
Still birth	400,000
Temporary disability up to 30 days	450,000
Temporary disability after 10 days	150,000
Permanent disability	2,000,000
Minor surgery	200,000
Major surgery	600,000

Source: Cooperativa Medalla Milagrosa website<sup>196</sup>

<sup>196</sup> <http://www.medalla.coop.py/solidaridad.php>

**Although this solidarity product is not supervised as insurance, the risk related to this type of informal micro-insurance product seems relatively low.** Anecdotal evidence suggests that solidarity is appropriately priced for the cooperatives' clientele, to the extent that members see the monthly payments (or premiums) as affordable and well-worth the security provided. Anecdotal evidence also suggests that cooperatives do not have problems covering all of the solidarity payments (or claims).

**There is evidence that people in rural areas occasionally organize themselves to mitigate risks in other ways.** For example, a small group of women in a rural community in Caaguazú each contributed a certain amount of money and deposited this lump sum in a bank account under two of the women's names. If any contributing member of the group has an emergency (particularly a medical emergency), she could borrow the money from the group, to be paid back later interest free.

## SOCIAL SECURITY AND PENSION

**The state-run pension system is made up of eight institutions.** These are: 1. IPS, 2. the pension system administered by the *Ministerio de Hacienda (Caja Fiscal)*, 3. the system for bank employees (*Caja de Jubilaciones y Pensiones de Empleados Bancarios del Paraguay*), 4. the system for municipal employees (*Caja de Jubilaciones y Pensiones del personal Municipal*), 5. the system for members of the legislature (*Fondo de Jubilaciones y Pensiones para miembros del Poder Legislativo*), 6. the system for railroad workers (*Caja de Jubilaciones y Pensiones de Empleados y Obreros Ferroviarios*), 7. the system for employees of the national electric company Administración Nacional de Electricidad ANDE (*Caja de Jubilaciones y Pensiones del Personal de la ANDE*) and 8. the system for employees of the national hydroelectric dam *ITAIPU Binacional (Caja Paraguaya de Jubilaciones y pensiones de la ITAIPU Binacional)*.

**The two primary pension institutions are the Caja Fiscal and the IPS.** Generally, the Caja Fiscal serves public sector salaried employees and the IPS serves private sector salaried employees<sup>197</sup>. There are a total of 812,132 people in the pension program, 500,278 people covered by IPS and 311,854 covered by the Caja

<sup>197</sup> IPS does not cover bank employees, but also covers public employees of decentralized entities. The Law 4933/13 authorized the voluntary incorporation of independent workers, employers, housewives and domestic workers into the IPS pension system. (Source: Molinas Gwynn, et al. Estudios y Proyecciones Actuariales del Régimen de Jubilaciones y Pensiones del Instituto de Previsión Social)

Fiscal<sup>198</sup> (Table 16).

**Table 16: State-run pension beneficiaries**

	IPS	Caja Fiscal	TOTAL
Contributors	458,188	232,631	715,553
Retirees	42,090	46,800	96,579
TOTAL	500,278	311,854	812,132

Source: Ministerio de Hacienda – Social Security Department

**In addition to the public system, cajas mutuales are private entities that often offer retirement savings funds, along with other financial services such as credit and other savings products.** These entities were created by Law No. 3472/08, which indicates that they will be supervised by a National Institute of Mutuels (INMU). To date this institution has not yet been created<sup>199</sup>, so limited information data is available on the *cajas mutuales*. While the total number of *cajas mutuales* in the country is not monitored, the four principle companies in this sector are Caja Mutual de Cooperativistas del Paraguay, Caja Médica y de Profesionales Universitarios, Mutuality Notarial, and Caja Mutual de Profesores de la Universidad Católica.

## CONCLUSION

**Access to insurance is extremely low for the majority of Paraguayans, with the poor being disproportionately under-served.** There is significant unmet demand for insurance among the low-income segments of the population. Insurance companies should be encouraged to develop new micro-insurance products that can help the poor mitigate their risk. The Association of Insurance Companies and the Superintendence of Insurance should conduct a market feasibility study on micro-insurance. The study would help raise awareness and interest in micro-insurance among insurance companies, and inform the design of feasible products. The authorities should also encourage more competition in the insurance market which could be done by inducing various business models for insurance.

**There is a strong demand for health insurance, but not enough coverage among the poor.** Pre-paid medicine plays a significant role in providing health insurance in the country. Pre-paid medicine companies as well as formal insurance companies should introduce

<sup>198</sup> Data provided by the Ministerio de Hacienda, April 2014

<sup>199</sup> In the meantime, it is anticipated that a new law will be passed at the end of 2014 creating a Pension Superintendence, which would supervise *cajas mutuales*.

products that are geared to lower-income individuals and families. Additionally, pre-paid medicine is essentially an insurance product, and the financial aspect of pre-paid medicine should be regulated under the same regulatory framework as any other insurance to ensure the safety of its clients.

**Auto insurance should also be required.** Paraguay is one of the only countries in Latin America that does not require auto insurance. The lack of auto insurance combined with the lack of medical insurance introduces significant risk to not only drivers, but to all Paraguayans. It has also introduced a particular financial burden to the public hospital that treats trauma patients who are uninsured.

**Coverage of pension and social security is also very low.** Work should be done to incorporate more people into the pension and social security system and allow more people without formal employment to participate in these schemes.

**Agriculture insurance should be linked with agriculture loans.** Insurance companies should partner with banks and cooperatives to ensure that insurance is offered and promoted as a regular part of the loan application process similar to the way that life insurance products are often offered to clients of personal loans.

# Summary of Recommendations

# 6

Recommendation:	Priority: High, Medium or Low	Timeframe: Immediate (within 6 months), Mid- term (6-24 months) or Long- term
Authorities should regularly collect data on and monitor the activities of <i>casas de crédito</i> , pawnshops, and commercial stores that provide credit.	High	Immediate
Financial institutions should leverage the robust agent networks already built by MNOs and payment service providers. To this end, authorities should encourage non-exclusivity between financial institutions and their agents.	High	Immediate
Banks should enable agents to perform a range of financial services.	High	Immediate
The BCP should have a dialogue with banks and the associations (ASOBAN and ADEFI) to: i) solicit feedback from on the simplified accounts to understand the reasons behind the slow uptake of this product and ii) to raise awareness about the benefits and possible business opportunities that offering simplified accounts represents.	High	Immediate
BCP should collect and maintain a database of unique depositors (not just simplified accountholders) to better monitor access to savings overall.	High	Immediate
The authorities should work with the financial institutions to develop new microfinance products that can improve access to credit by MSMEs such as leasing and factoring.	High	Immediate
The BCP should monitor the loan portfolios that are sold by formal financial institutions to non-regulated entities.	High	Immediate
Authorities should measure and monitor over-indebtedness in the country, including supply-side indicators, data from the credit information systems, as well as information from nationally-representative household surveys	High	Immediate
MNOs should continue to promote their respective e-wallet products and encourage their clients to move away from exclusively OTC transactions	High	Immediate
All public sector entities, including the pension funds, should pay their beneficiaries and employees through electronic transfers.	High	Immediate
Private businesses should be encouraged to pay their employees through electronic transfers, possibly through awareness campaigns targeting businesses.	High	Immediate
The Association of Insurance Companies and the Superintendence of Insurance should conduct a market feasibility study on micro-insurance.	High	Immediate
Insurance companies should partner with banks and cooperatives to ensure that agriculture insurance is offered and promoted as a regular part of the agriculture loan application process.	High	Immediate
Documentation requirements for ordinary savings accounts as informed by AML/CFT requirements should be revised. Potential clients should not have to present proof of income or employment to open an ordinary savings account.	High	Mid-term

The minimum balance for ordinary savings accounts should be lowered to a more reasonable level (in relation to the minimum wage).	High	Mid-term
Financial institutions should be encouraged and assisted in innovating new savings products for the poor, such as commitment savings products targeting that segment of the population.	High	Mid-term
The credit registries at BCP and INCOOP should collect more client data and should communicate with one another to provide a more complete picture a client's debt.	High	Mid-term
The Paraguayan government should implement the SME credit guarantee fund.	High	Mid-term
Pre-paid medicine companies as well as formal insurance companies should introduce products that are geared to lower-income individuals and families.	High	Mid-term
Ensure all banks and finance companies are connected to the ATS, maybe consider other financial entities if they meet risk operational requirements	High	Mid-term
Informconf should improve its reporting of positive information, including good loan repayment, by implementing measures that deter cherry-picking good clients and incentivize more consistent reporting of information. Informconf's database also needs greater quality control so that the market can rely on the information provided.	High	Long-term
Work should be done to incorporate more people into the pension and social security system and allow more people without formal employment to participate in these schemes	High	Long-term
A collateral registry should be assessed, designed, and implemented.	High	Long-term
Authorities should raise awareness by regularly monitoring and reporting on bank physical presence in the country. To generate interest in high potential geographic areas that have significant populations, but are not yet well attended by the financial system.	Medium	Immediate
BNF currently facilitates the majority of government transfers, but an assessment should be made as to whether there are other financial entities that may be able to provide certain payments services more efficiently.	Medium	Immediate
The financial aspects of pre-paid medicine schemes should be prudentially regulated.	Medium	Mid-term
Banks should improve their operational efficiency to lower interest rate spread	Medium	Mid-term
Dinelco and Infonet should make their systems interoperable	Medium	Mid-term
Retirement funds and insurance companies should be allowed and encouraged to invest in securities, and banks should also offer new investment products to clients.	Medium	Mid-term
Auto insurance should also be required.	Medium	Mid-term

The government should make the process of formalizing a business (obtaining a RUC) more accessible (both physically and administratively) for rural, micro, and small enterprises	Medium	Long-term
The government should ensure that all eligible citizens have a valid national ID by supporting identification drives and other initiatives.	Low	Long-term

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# Annex A

## List of Interviews

LUNES 21 DE ABRIL			
	09.15 am	Reunión con el Banco Central del Paraguay	Isidro Chávez Arroyos, Jefe de Bancarización, Intendencia de Inclusión Financiera, Superintendencia de Bancos Ángel González, Intendencia de Inclusión Financiera, Superintendencia de Bancos
	11 a.m.	Reunión con el Viceministerio de MiPYMES	Lorena Méndez, Vice Ministra Nathalia Rodríguez Romero Vanessa Escobar Franco
	14:00 horas	Reunión del Equipo Técnico: BCP + INCOOP + STP + Hacienda	Paola Giménez, Intendencia de Inclusión Financiera, Banco Central del Paraguay Humberto Ariel Colman Castillo, Director, Dirección de Estudios Económicos, Ministerio de Hacienda Edgar Gómez Leiva, Secretaría Técnica de Planificación Daniel Escauriza, Secretaría Técnica de Planificación Laura Morínigo, Dirección de Estudios Económicos, Ministerio de Hacienda Pedro Peña, Dirección de Estudios Económicos, Ministerio de Hacienda
	16:30 horas	Reunión con Fundación Paraguaya	Roberto Giménez, Gerente de Negocios Estratégicos Omar A. Sanabria Derbas, Gerente de Microfinanzas
MARTES 22 DE ABRIL			
	10 a.m.	Reunión con la Bolsa de Valores y Productos	Rodrigo G. Callizo López Moreira, Presidente del Directorio Osvaldo Gauto, Gerente Comercial
	11:30 a.m.	Credimas	Reinaldo Penner, Presidente Ejecutivo Carlos Ortiz, Director Titular
	14:00 horas	Reunión con Hacienda - Seguridad Social	Melissa González, Jefa de Seguridad Social Bernardo Navarro, Asesor
	16:00 horas	Reunión con Personal - Soluciones Financieras	Lorena Ríos, Coordinadora proyecto BID/FOMIN Fernando Grutter, Nuevos Negocios

	17:30 horas	Reunión con MEDA Paraguay	Gustavo Torres, Gerente PRODIR Arnold Epp, Director Ejecutivo Emilio Iberbuden Gerente de Proyectos
<b>MIÉRCOLES 23 DE ABRIL</b>			
	8:30 a.m.	Reunión con INCOOP	Regis Gamarra, Director de Estadísticas María Mercedes Ortega M., Coordinadora de Normas Fernando Gamarra, Coordinación del Fondo de Garantía
	10:30 a.m.	ASOBAN	Roberto Haitter, Director Ejecutivo
	13:30 horas	Reunión con Crédito Agrícola de Habilitación	Juan Meili, Gerente de Servicios Víctor Ortiz, Dirección de Gestión de Negocios
	16:00 horas	Reunión con la Confederación Paraguaya de Cooperativas	Mirta Casco, Gerente General
<b>JUEVES 24 DE ABRIL</b>			
	8.00 a.m.	Casa Rosada - Casa de Empeño	Marco Aurelio Nunes
	10.30 a.m.	Reunión con Cooperativa Medalla Milagrosa	Bernardino Portillo, Gerente General
	14:00 horas	Reunión con CENCOPAN	Pedro Loblein, Presidente
	15:00 horas	Reunión con Cooperativa Mercado 4	Edith C. Pérez G., Gerente General Pedro Loblein, Presidente
	17:00 horas	Reunión con Ministerio de Agricultura	Ing. César Duarte, Director de la Dirección Nacional de Coordinación y Administración de Proyectos
<b>VIERNES 25 DE ABRIL</b>			
	08.30 a.m.	Reunión con CARSA – CHE DUO	Lic. Pedro Espínola, Gerente General
	10.00 a.m.	Reunión con Informconf	Oswaldo Gamarra, Subgerente Comercial
	11.30 a.m.	Reunión con ADEFI	Lic. Ramón Larza, Miembro del Directorio

			Manuel Caballero, Director Ejecutivo
	14:00 horas	Reunión con Interfisa	José Cantero, Gerente General Adjunto Carlos Villamayor, Gerente de Riesgos Ivonete da Silva, Gerente de RSE y Comunicación Javier Estigarribia, Gerente de Ahorros
	16:30 horas	Banco Familiar	Fabio Najmanovich, Gerente Banca Minorista Hilton Giardina Varela, Gerente General Adjunto
<b>LUNES 28 DE ABRIL</b>			
	08.00 a.m.	Reunión con Fondo Ganadero	Dr. Gustavo Dávalos, Director de Créditos y Asistencia Técnica
	10.00 a.m.	Reunión con el Banco Nacional de Fomento	Miguel Ángel Rodríguez M., Director General de Operaciones Financieras Luis Alberto López Gamex, Director de Servicios Bancarios Fernando Ruiz Díaz, Director de Finanzas
	17:00 horas	Fundación Capital	Adriana Insaurralde, Represente en el país
<b>MARTES 29 DE ABRIL</b>			
	08.00	Nuestra Señora de Asunción	Antonio Peralta, Director Demetrio Rojas, Director Belén Rojas, Directora
	10.00	Reunión con Asociación Paraguaya de Compañías de Seguro	Lic. Rubén Rappenecker Coscia - Gerente General Dr. Miguel Ángel Luque Portela, Asesor Económico Financiero
	11.30	Financiera El Comercio	Cristian Barrios, Subgerente General, Regional Metropolitano Arlette Barrail, Gerente Banca Personas
	02.30	Gabinete Social Unidad Técnica del Gabinete Social,	Mirta Denis, Directora
	15:30 horas	Visión Banco	Darío Colman, Gerente de Desarrollo Sostenible y Calidad de Cartera Rubén Mendoza, Gerente Unidad Estratégica de Negocios Luz María Gómez, Gerente de Banca Emprendedor Silvia Bracho, Gerente de Banca VIDA

	17:00 horas	Tigo	Javier Irala R., Gerente Go to Market Natalia Oviedo, Gerente de Productos Transaccionales, Mobile Cash Paraguay S.A. Rogelio Urizar, Inteligencia Comercial y Gerente de Productos
<b>MIÉRCOLES 30 DE ABRIL</b>			
	09.00 a.m.	Cambios Chaco	Eduardo Mujica Ojeda, Gerente General Claudia Benítez Nicolaus, Gerente Mario González Quiroga, Oficial de Cumplimiento
	14:00 horas	Superintendencia de Seguros	Roberto Cesar Domínguez Acosta, Intendente Derlis Penayo Ramírez, Intendente, Intendencia de Estudios Mariana López, Director Pedro González, Intendente de Control Financiero
<b>LUNES 26 DE MAYO 2014</b>			
	14:00 horas	Sancor Seguros	Ricardo Duarte, Agente de Seguros Guillermo Bessone, Gerente Comercial
<b>MARTES 27 DE MAYO 2014</b>			
		<p>Visitas:</p> <p><u>Nemby</u></p> <ul style="list-style-type: none"> <li>• Vía Cell (Tigo Money)</li> <li>• Sucursal Nemby Medalla</li> <li>• Sucursal Universitaria Nemby</li> </ul> <p><u>San Lorenzo</u></p> <ul style="list-style-type: none"> <li>• Full Cell (Tigo Money)</li> <li>• Interfisa Sucursal San Lorenzo</li> <li>• Financiera El Comercio Sucursal San Lorenzo</li> <li>• Fácil Hogar (Banco Agente para Visión Banco)</li> <li>• Visión Sucursal San Lorenzo</li> <li>• Mer's (Agente para Familiar, Tigo Money)</li> </ul>	
	14:00 horas	Superintendencia de Seguros	Roberto César Domínguez Acosta, Intendente Derlis Penayo Ramírez, Intendente, Intendencia de Estudios Mariana López, Director Pedro González, Intendente de Control

			Financiero
<b>MIÉRCOLES 28 DE MAYO 2014</b>			
	08 a.m.	Red de Microfinanzas	Laura Lesme , Directora Ejecutiva Luis Echarte, Consultor Edith, Gerente General de Coop Mercado 4
	10:30 horas	ProMed	Alfred Menini, Director General
	14:00 horas	PRODERS/MAG	César Duarte Guillermo Céspedes, Coordinador General de PRODERS
	17:00 horas	AFD	
<b>JUEVES 29 DE MAYO 2014</b>			
	Todo el día	Visita a beneficiarios de PRODERS <ul style="list-style-type: none"> <li>• R.I. 3 Corrales</li> <li>• J.E. Estigarribia (comunidad indígena)</li> </ul>	
<b>LUNES 2 DE JUNIO 2014</b>			
	Todo el día	<ul style="list-style-type: none"> <li>• Cooperativa Carolina, Itacurubí del Rosario</li> <li>• Visita a feria de mujeres agricultoras organizadas por PRODERS, Ciudad de Itacurubí del Rosario</li> <li>• Oficina de Crédito Agrícola, San Estanislao</li> </ul>	
<b>MARTES 3 DE JUNIO 2014</b>			
	Todo el día	Visita a beneficiarios de Tekoporã con Fundación Capital en Guayaibí, San Pedro <ul style="list-style-type: none"> <li>• Visita dos mujeres beneficiarias en sus hogares</li> <li>• Reunión con aproximadamente 30 beneficiarios con personal de la Secretaría de Acción Social</li> </ul>	
<b>MIÉRCOLES 4 DE JUNIO 2014</b>			
	15:00 horas	Ministerio de Industria y Comercio, Viceministerio de PYMES	

## Annex B

### List of districts with no bank/finance company presence (no branch, ATM, or agent)

Department	District	population	Population density (pop per sq km)
Alto Paraguay	La Victoria	6,193	0.28
Alto Paraguay	Fuerte Olimpo	4,768	0.09
Alto Paraná	Domingo Martínez de Irala	10,818	32.38
Alto Paraná	Iruña	6,266	11.86
Alto Paraná	Mbaracayú	14,121	34.79
Alto Paraná	Ñacunday	13,950	18.53
Caaguazú	Carayaó	15,094	16.40
Caaguazú	José Domingo Ocampos	10,192	18.43
Caaguazú	La Pastora	5,224	24.12
Caaguazú	Mcal. Francisco S. López	8,115	6.59
Caaguazú	Nueva Londres	4,652	18.91
Caaguazú	Repatriación	33,146	24.02
Caaguazú	R. I. Tres Corrales	9,168	10.58
Caaguazú	San Joaquín	18,077	37.38
Caaguazú	Simón Bolívar	5,415	16.48
Caazapá	Doctor Moisés S. Bertoni	5,035	7.28
Caazapá	Maciel	4,367	4.37
Canindeyú	Gral. Francisco Caballero Álvarez	15,523	3.76
Canindeyú	Itanará	3,064	3.33
Canindeyú	Ypejhú	7,720	8.07
Central	Nueva Italia	17,379	458.56
Concepción	Belén	10,071	0.89
Concepción	Loreto	17,170	21.18
Cordillera	Altos	14,023	107.62
Cordillera	Atyrá	16,337	112.36
Cordillera	Loma Grande	3,415	40.04

Cordillera	Mbocayaty del Yhaguy	5,312	20.07
Cordillera	Nueva Colombia	4,574	59.01
Cordillera	Primero de Marzo	7,626	93.00
Cordillera	San José Obrero	5,216	26.40
Cordillera	Santa Elena	7,330	65.04
Cordillera	Valenzuela	7,285	42.04
Guairá	Borja	10,133	22.73
Guairá	Dr. Bottrell	1,567	20.61
Guairá	José Fassardi	7,701	80.55
Guairá	Félix Pérez Cardozo	5,239	48.02
Guairá	General Eugenio A. Garay	7,798	27.04
Guairá	Itapé	7,289	44.88
Guairá	Iturbe	10,024	34.30
Guairá	Mbocayaty	7,066	40.19
Guairá	Natalicio Talavera	3,713	18.40
Guairá	Ñumí	3,708	57.49
Guairá	Paso Yobái	25,557	39.88
Guairá	San Salvador	3,550	24.47
Guairá	Yataity	4,218	47.50
Itapúa	Carlos Antonio López	21,432	97.77
Itapúa	Itapúa Poty	17,780	33.96
Itapúa	Jesús	6,998	48.56
Itapúa	José Leandro Oviedo	5,426	41.58
Itapúa	Nueva Alborada	8,435	36.30
Itapúa	San Rafael del Paraná	25,090	17.27
Itapúa	Trinidad	7,925	45.03
Itapúa	Yatytay	14,480	64.10
Misiones	Santa María	8,899	23.95
Misiones	Santiago	8,098	9.46
Misiones	Villa Florida	2,868	10.61

Misiones	Yabebyry	3,509	4.22
Ñeembucú	Alberdi	7,701	69.44
Ñeembucú	Cerrito	5,306	8.46
Ñeembucú	Desmochados	1,889	6.63
Ñeembucú	General José Eduvigis Díaz	4,097	12.12
Ñeembucú	Guazú Cuá	2,282	2.59
Ñeembucú	Humaitá	3,262	10.14
Ñeembucú	Isla Umbú	3,305	6.81
Ñeembucú	Laureles	3,730	4.36
Ñeembucú	Mayor José J. Martínez	4,365	11.06
Ñeembucú	Paso de Patria	1,896	7.92
Ñeembucú	Tacuaras	3,741	2.00
Ñeembucú	Villa Franca	1,003	0.65
Ñeembucú	Villalbín	2,409	1.49
Ñeembucú	Villa Oliva	3,570	9.20
Paraguarí	Acahay	16,153	50.13
Paraguarí	Caapucú	7,860	3.20
Paraguarí	Escobar	8,858	19.16
Paraguarí	Gral. Bernardino Caballero	7,076	25.40
Paraguarí	Pirayú	15,869	91.04
Paraguarí	Quyquyhó	7,551	12.97
Paraguarí	San Roque González de Santa Cruz	11,705	48.81
Paraguarí	Sapucaí	6,578	31.44
Paraguarí	Tebicuary-mí	4,166	30.43
Paraguarí	Ybytymí	7,370	18.93
Presidente Hayes	Dr. José Falcón	4,200	2.21
Presidente Hayes	Puerto Pinasco	5,372	0.56
San Pedro	Antequera	3,890	8.10
San Pedro	Lima	11,438	17.38
San Pedro	Unión	6,473	11.01

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San Pedro	Veinticinco de Diciembre	10,641	10.69
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## Annex C

### Financial Sector Players

Entities	Number of companies	% deposits	% loans	% accounts	Interest rates	Number of branches	Number of agents	Number of ATMs
Banks and Finance Companies	28	89%	84%	42%	19% (banks) 34% (finance companies)	515	312	1051
Cooperatives whose primary business is financial services	330	11%	165	58%	Data not available	490	0 <sup>200</sup>	n/a
Casas de Credito	796	n/a	n/a	n/a	56.16% <sup>201</sup>	n/a	Payment companies <sup>202</sup>	n/a
Pawnshops	467	n/a	n/a	n/a	83.39%	n/a	n/a	n/a
MNOs with e-payments	2	n/a	n/a	n/a	Cost of transfers: 4%	n/a	Agents offering e-payments Tigo:2,400 Personal: 889	143 (Dinelco ATMs) <sup>203</sup>

<sup>200</sup> Cooperatives generally do not use agents; however some cooperatives act as agents for each other.

<sup>201</sup> There is no consolidated data on casas de credito. Anecdotaly, it seems that they charge the maximum or close to the maximum allowed by the BCP

<sup>202</sup> Some casas de credito accept payments through payment companies

<sup>203</sup> Personal provided this number. Tigo also uses the same Dinelco ATMs.

Non-bank international remittance providers	9 <sup>204</sup>	n/a	n/a	n/a	4.07% <sup>205</sup>	Data not available	Western Union: Data not available  MoneyGram: Data not available	n/a
Non-bank non MNO domestic money transfer providers	7 <sup>206</sup>	n/a	n/a	n/a	Cost of transfers: 0.39%-4%	n/a	NSA: 180  Cambios Chacos: 31  Western Union: Data not available	n/a
Payment companies	Approx. 2	n/a	n/a	n/a	Data not available	n/a	2670	n/a

<sup>204</sup> SEPRELAD has nine companies registered as providers of money transfer services (international and national is not distinguished)

<sup>205</sup> World Bank, Remittance Prices Worldwide. Data updated February 7, 2014

<sup>206</sup> SEPRELAD has nine companies registered as providers of money transfer services (international and national is not distinguished), two are MNOs