

PROGRAM TO STRENGTHEN THE FINANCIAL SECTOR

(TC-99-09-02-4)

EXECUTIVE SUMMARY

Executing agency:	The Central Bank of Honduras [Banco Central de Honduras] (BCH).	
Beneficiaries:	The program beneficiary will be the financial system. At the conclusion of the program, the financial system will have a more complete regulatory and supervisory framework and more efficient governing bodies.	
Objectives:	The objective of the program is to provide support for continuing the financial sector reform process currently being implemented by the Honduran government, and incorporate any applicable international banking and insurance standards.	
Description:	The program has two components: 1) Strengthening of the regulatory and prudential framework of the financial system through the following activities: (a) extend supervision to the non-banking financial institutions in the system; (b) expand the National Banking and Insurance Commission's [Comisión Nacional de Bancos y Seguros] (CNBS) risk center; (c) create a comprehensive system of activities to protect the institutions in the financial sector; (d) integrate the BCH and CNBS information systems with those of the institutions in the financial system; and 2) Strengthening of the training system of the Honduran Association of Banking Institutions [Asociación Hondureña de Instituciones Bancarias] (AHIBA) and the Honduran Chamber of Insurance Companies [Cámara Hondureña de Aseguradoras] (CAHDA) to improve the system's human resources.	
Financing:	MIF (Grant-Facility 1):	US\$1,456,872
	Public sector:	US\$ 618,748
	Private sector:	<u>US\$ 352,500</u>
	Total:	US\$2,428,120
Terms:	Implementation:	36 months
	Disbursement:	42 months
Exceptions to Bank policy:	None.	

**Environmental
and social
review:**

The project was reviewed by the Committee on Environment and Social Impact at its meeting on March 10, 2000.

**Special
contractual
clauses:**

Prior to the first disbursement of the Multilateral Investment Fund (MIF) contribution, the BCH will demonstrate, to the Bank's satisfaction, that: (a) it has signed cooperation agreements with CNBS, AHIBA and CAHDA to participate in the program, under the terms agreed previously with the Bank; (b) it has a plan of action for activities to be carried out in each component in the first year of program implementation; and (c) a coordinator has been designated for each institution taking part in the program.

I. COUNTRY AND PROJECT ELIGIBILITY

- 1.1 On December 14, 1993, the MIF Donors Committee declared Honduras eligible for all funding modalities of the Multilateral Investment Fund. This project qualifies for MIF financing under the framework of the Technical Cooperation Facility. Private-sector development and investment stimulation are dependent on a solid, efficient financial sector. This project is designed to continue the sector-strengthening activities initiated with the ATN/MT-5235-HO operation so as to build a suitable regulatory framework and a more efficient supervisory system. That operation lent support for the most important aspects of the financial sector's regulatory framework and created the institutional and operational foundation for running CNBS. This program is intended to continue sector improvements through critical supplementary activities that were not included in the earlier operation and which are essential for the functioning of the Honduran financial system.

II. BACKGROUND

- 2.1 The financial sector in Honduras consists of 22 private banks (including two foreign banks), four state banks, four savings and loan associations, 13 finance companies, 11 insurance companies, six bonded warehouses, four private pension funds, 13 brokerage houses, and 95 credit unions. At year-end 1999, banking system assets totaled approximately US\$3.5 billion.
- 2.2 In the early 1990s, Honduras began implementing a series of reforms to stabilize the economy, speed economic growth and improve the country's social conditions. As part of the structural adjustment program, the government also embarked on a gradual financial sector reform process. To modernize the legal framework of the banking subsector, on October 24, 1995 the Congress passed the banking and insurance commission law, which led to the creation of CNBS, thus establishing the basic model for supervision and regulation of the financial system. As a supplementary measure, on October 31, 1995 the Congress passed a new law for financial-sector institutions. This law eliminates the barriers for new banks to enter the system, makes all financial intermediaries subject to supervision, and strengthens the prudential regulations for banking institutions. And lastly, on December 17, 1996 the Congress passed a new law pertaining to the Central Bank of Honduras [Banco Central de Honduras] (BCH). Under the new legal framework, the BCH was given responsibility for issuing the regulations, and CNBS was charged with enforcing the regulations and supervising the financial institutions.
- 2.3 Under the aforementioned regulatory framework, there is a single regulatory entity governing the entire sector, and CNBS has a strong market presence through which it can consolidate its supervision of institutions that operate in many areas of the financial sector. The implementation of these legal reforms called for a parallel effort to extend the legal framework to the insurance and capital-markets subsectors

and to establish bank deposit insurance. It was also necessary to ensure that CNBS was technically capable of carrying out its responsibilities.

- 2.4 In 1993, at the government's request, the Bank granted technical assistance (ATN/MT-5235-HO) to the financial sector using MIF resources. The purpose of the assistance was: (a) to support the regulatory framework encompassing the banking system, insurance companies and the stock market, (b) to complete the internal CNBS organization, working procedures and manuals; (c) to strengthen CNBS information systems, including the creation of a risk center, and (d) to provide training for CNBS managerial and technical staff.
- 2.5 The project had a slow start, owing to manpower problems related to the separation and transfer of the BCH's supervisory function to the recently-created CNBS. It took more than a year to establish a full complement of CNBS staff. At the time of preparation of this document, the project has reached the 96% implementation level. According to the August 2000 evaluation, the following results have been achieved: for component (a), preparation of draft laws for the deposit insurance system, insurance and reinsurance institutions, the stock market, and the enabling regulations for the new laws on financial institutions, insurance and reinsurance institutions, and the stock market. Component (b) included the complete internal organization of CNBS to tailor it to the new legal framework, including working procedures and manuals. Further preparations included: the prudential regulations and a uniform chart of accounts for the banking system, including training for CNBS staff in charge of accounting; development of the standards needed for the new legal framework of the insurance companies, as well as their own uniform chart of accounts and related staff training; preparation of the accounting manual; and the prudential regulations for the stock market.
- 2.6 With regard to component (c): development of internal information systems, determination of CNBS's additional automation and information needs, installation of computer equipment, development of the subsystems and main modules for financial institutions and insurance companies, training of technical staff, design and installation of a risk center, registration of reinsurers, and design of financial information bulletins. These activities completed the CNBS internal information system. And lastly, with regard to component (d), with assistance from the general program coordinator, all courses and seminars necessary to train CNBS technical and managerial staff were held.
- 2.7 The results of this operation show that it is possible to achieve considerable progress with limited resources in the presence of clear goals and the political will to attain them. A lesson was learned from the fact that one reason for the slow implementation of the program was the broad scope of proposed activities for institutions that lacked the necessary implementation capacity. This operation has the express will of the authorities, who have assigned the highest priority to the

proposed activities. The scope of the project takes into consideration the implementation capacity of the institutions involved.

- 2.8 The failure of one of the sector's major banks in 1999 revealed a series of weaknesses in the bank's compliance with the Basle standards and principles that appear to have been repeated in other banks in the sector. Part of the difficulty in establishing the degree to which the financial institutions comply with these standards and principles stems from the lack of available information for establishing an opinion in that regard. The banks are reporting the information late and CNBS has not yet adjusted its information systems for receiving it with appropriate regularity. In the earlier program, the CNBS internal information system was completed but it was not hooked up to the information systems of the Central Bank and banks in the system. These systems will be linked up together in the present program, thus improving considerably the timeliness and quality of the information required for the correct application of supervision standards. Also, the design and implementation of structures and procedures for the Central Bank and the CNBS for treatment of proper liquidity ratios, mergers and disposals that may be required by institutions in the sector will certainly help to prevent future crises such as the referred to earlier.
- 2.9 In early 1999, the Government of Honduras drew up its economic program for 2000-2002, which has been supported by the International Monetary Fund (IMF) under a poverty reduction and growth facility. The purpose of the program is to achieve rapid economic recovery, maintain stability, establish a structural reform agenda and address the most pressing social needs in the wake of Hurricane Mitch. The international community has continued to offer its cooperation through its support of the country's inclusion in the Heavily Indebted Poor Countries Initiative (HIPC) and through new grants.
- 2.10 Honduras reached the "decision point" under the HIPC Initiative in August 2000, with the support of the IMF, the World Bank and the IDB. In the context of this agreement, the government pledged to improve the regulatory framework and supervision of the financial sector by: (a) passing laws on deposit insurance, insurance and reinsurance, and the stock market; (b) achieving substantial progress in applying the Basle principles to the banking sector; and (c) increasing the capital adequacy of the banks from 9% to 10%.
- 2.11 The BCH and CNBS have again requested the Bank's support to continue the reform program currently underway in the financial sector. This program provides for preparation and implementation of the prudential regulations deriving from the laws submitted to the Congress for approval this year. It also includes supervision of non-banking institutions that were not included in the earlier operation, as well as consolidation of the information systems with those of the institutions in the system. AHIBA and CAHDA have asked for the Bank's support to strengthen their

training program for employees of financial institutions and insurance companies on the subject of banking operation and supervision, and insurance.

III. PROGRAM OBJECTIVE AND DESCRIPTION

A. Objective

- 3.1 The objective of the project is to provide support for continuing the financial sector reform process currently being implemented by the Honduran government, and incorporate any applicable international banking and insurance standards.

B. Description

- 3.2 The program has two components: (1) Strengthening of the regulatory and prudential framework of the financial sector (MIF: US\$800,000; counterpart: US\$533,000); and (2) Program to improve the training systems of AHIBA and CAHDA (MIF: US\$480,000; counterpart: US\$320,000). The program consists of the following activities: (a) extend supervision to the non-banking financial institutions in the system; (b) expand the CNBS risk center; (c) create a comprehensive system of activities to protect the institutions in the financial sector; (d) integrate the BCH and CNBS information systems with those of the institutions in the financial system; and (e) offer training courses and workshops under the responsibility of AHIBA and CAHDA to improve the system's human resources.

1. Component I provides for the following activities:

- 3.3 **(a) Expand supervision to the non-banking financial institutions in the system (MIF: US\$171,000; counterpart: US\$114,000).** As indicated above, in addition to banks and insurance companies, Honduras has five private pension funds, six bonded warehouses, 13 brokerage houses, 95 credit unions and various NGOs that take deposits from the public, known as private development organizations [Organizaciones de Desarrollo Privado] (OPDs). CNBS is currently incorporating these institutions into its supervision and inspection system, for which it is required to establish prudential regulations appropriate to the nature of each institution. The resources allocated to this activity will be used to hire consultants to prepare the procedural manuals and charts of accounts for the supervision and analysis of these institutions. Special consulting services will also be required for collaboration with the CNBS technical staff to design systems and procedures for regulating the private pension funds on the basis of the laws in force until a specific law is presented to the Congress. The program will support these activities and a training plan for application of the rules and use of the manuals and charts of account. The commission will also need to expand the capacity of its information systems and the risk center.

- 3.4 **(b) Expand the CNBS risk center (MIF: US\$60,000; counterpart: US\$40,000).** Consultants will be hired to provide assistance for systems and procedures to include 100% of the banks' loan portfolios (at present, only loans above US\$20,000 are covered) and for non-banking financial institutions. The hardware and software needed for this risk center expansion have been included in the systems integration activity discussed in paragraph 3.7 below.
- 3.5 **(c) Create a comprehensive system of activities to protect the institutions in the financial sector (MIF: US\$277,000; counterpart: US\$185,000).** Although the earlier program led to major advances in the regulatory framework of the financial system, special structures are needed in the BCH and CNBS to prevent possible crises in the system. The resources allocated to this activity will be used to hire consultants who, with the technical staff of CNBS and the BCH, will have joint responsibility for the following tasks aimed at developing a more solid, competitive banking system: design of systems and procedures for monitoring liquidity, and mergers, liquidation or recovery of financial institutions. These tasks will concentrate on creating technical units in the BCH and CNBS for that purpose. There will also be a review of the degree to which the institutions in the sector comply with the Basle standards and principles. If weaknesses are found in the application of these provisions, a plan will be drawn up with the CNBS to resolve the situation and ensure that the institutions comply with these standards and principles. With regard to mergers or liquidations, the technical areas to be covered will be accounting matters (portfolio and investments, valuation of other assets and liabilities, guarantees, etc.), tax impact, management of human resources, and consolidation of services and branches of the institutions involved in the process. Once these tasks have been implemented, the BCH and CNBS will also have: (i) a modern manual of procedures for banking interventions, and (ii) a manual of procedures for liquidations.
- 3.6 **(d) Integrate the BCH and CNBS information systems with those of the institutions in the financial system (MIF: US\$293,000; counterpart: US\$185,000).** The resources from ATN/2053/MT were used to create the internal network of CNBS information systems. This task was essential for implementing its plan of integration with the national financial system. Under the current program, the BCH and CNBS have asked for assistance to integrate their information systems with the institutions in the financial system in order to optimize computer resources, reduce connection costs, and facilitate the inspection and communication processes among those institutions. The resources allocated to this activity will be used to hire consultants specialized in banking supervision and systems, and to purchase the hardware and software needed for the information systems of both institutions. The CNBS information systems will be integrated in three stages: commercial bank information in the first stage, insurance company information in the second, and information from non-banking financial institutions in the third stage. Six months into the information systems integration activities, CNBS will be required to present evidence to the Bank that it has established an electronic connection with

the commercial banks. Upon completion of this stage, work will begin to incorporate the insurance companies, with results reported to the Bank. The non-banking institutions will be incorporated in the third stage, on the basis of the experience with the banks and insurance companies.

- 3.7 Integration of these systems will enable the authorities to receive full updated information, expand the coverage of the systems to include private pension funds and nonfinancial banking institutions, and to incorporate the entire portfolios of financial and nonfinancial banking institutions in the risk center. In short, the activity to be developed with the information systems is essential for supplementing the other activities envisaged under the present program.

2. Component II: Program to improve the training system of AHIBA and CAHDA (MIF: US\$480,000; counterpart: US\$320,000).

- 3.8 AHIBA and CAHDA have developed an innovative training program for the staffs of the institutions they represent. Through the use of a "best practices" approach, the program will help consolidate the system created by each institution, raise the technical level of the courses offered and ensure sustainability. The MIF will contribute 60% of the cost of the educational program for the next two years, and the aforementioned institutions will contribute the remaining 40%. This arrangement will enable them to create a fund to continue their training activities on topics agreed with the Bank after the current program has been concluded.
- 3.9 Institutions in the financial system will cover the entire cost of their employees participating in the different training and development activities that AHIBA and CAHDA will offer. The recovery of costs and the MIF donation will help expand the services available. The content of courses and workshops will be agreed on with the Bank before the annual operating plans specified in the cooperation agreements between these institutions and the Central Bank are prepared.

IV. PROGRAM IMPLEMENTATION

A. Executing agency

- 4.1 The executing agency for the program will be the BCH. As with the earlier operation, the BCH has been deemed to have an administrative structure that will facilitate the use of the resources. It is important to note that, in addition to the counterpart funds it will be required to contribute for the activities, the BCH will also contribute indirectly with the CNBS counterpart, since it currently finances 50% of that institution's budget. On behalf of the Central Bank, CNBS, AHIBA and CAHDA will take part in implementing the program. The BCH will sign the agreement with the Bank and at the same time will pledge to sign cooperative agreements with CNBS, AHIBA and CAHDA to take part in the program

implementation. These agreements will cover a number of aspects, including the BCH's obligation to transfer the necessary resources of the contribution for performing the pertinent activities to CNBS, AHIBA and CAHDA, and the obligations pertaining to each of these institutions.

B. Program organization

- 4.2 The program will be governed by the agreement to be signed by and between the Bank and the BCH. The cooperative agreements will establish the conditions under which these institutions will carry out their respective activities. The most important points to be included in this agreement are:
- 4.3 **Program coordination.** The general manager of the BCH will be responsible for the performance of the activities envisioned for the institution. The officer responsible for carrying out the pertinent activities at CNBS will be the Technical Commissioner, the organization's highest authority, and the Superintendent. Each institution will designate a full-time coordinator who will answer to the aforementioned officer in charge. The coordinators will be selected from the staff of the BCH and CNBS. The officers responsible for implementation of the respective component at AHIBA and CAHDA will be each organization's executive director.
- 4.4 **Program monitoring.** The BCH will coordinate the program and deliver the information required by the Bank. The BCH and each participating organization will present to the Bank reports containing the information specified in the logical framework prepared for the program (see Annex I). These reports will be submitted in advance to their respective boards of directors in order to facilitate monitoring of progress on the project. The Bank's Country Office will use the progress reports and other program reports to prepare the project completion report (PCR) three months after completion of the program.
- 4.5 **Revolving fund:** The program provides for creation of a revolving fund to cover 10% of the financing.
- 4.6 **Retroactive recognition of expenditures:** The Bank may recognize, as part of the program's local counterpart resources, expenditures on program activities in an amount equivalent to US\$350,000 for component I and US\$200,000 for component II. Such expenditures are to have occurred prior to the date on which the Technical Cooperation was approved by the MIF Donors Committee but after May 29, 2000. There will be requirements substantially similar to those set forth in the technical-cooperation agreement, in accordance with applicable Bank policy.
- 4.7 **Procurement:** Goods and services for the program will be purchased in accordance with Bank policies and procedures.
- 4.8 **Accounting and auditing.** The BCH will have the following responsibilities: (a) establish and maintain accounting, financial and internal controls, as well as

filing systems that facilitate proper verification of the use of resources by source of financing. The program records will include: (i) identification of resources and the sources thereof; (ii) information on program expenditures, distinguishing between MIF contributions and funds from other sources; and (iii) the details necessary for determining goods purchased and services contracted; (iv) separate bank accounts for managing the MIF contribution and the local counterpart funds; (v) preparation and presentation to the Bank of the program's audited financial statements and semiannual reports for the revolving fund; and (f) proper filing of the supporting documentation for eligible program expenditures. **External auditing of the program.** The BCH will present to the Bank the end-of-project financial statements audited by an independent auditing firm acceptable to the Bank, within 90 days after the final disbursement. The cost of the audit will be covered by local counterpart funds.

C. Program beneficiaries

- 4.9 The program beneficiary will be the financial sector, which will have a more complete and efficient regulatory framework. The BCH and CNBS will be strengthened in previously neglected areas that are essential for proper functioning of the system. The support from this program will enable AHIBA and CAHDA to strengthen their existing training system to benefit the institutions in the sector.

D. Environmental and social considerations

- 4.10 The project was reviewed by the Committee on Environment and Social Impact at its meeting on March 10, 2000. The Committee's recommendations were examined by the project team and discussed on March 20, and the decision was made to include in the program agreement a provision relating to environmental and social considerations under the responsibility of the participating institutions. The BCH will include in the program's semiannual progress reports, information on compliance with the laws pertaining to environmental and social considerations that are under the responsibility of the participating institutions.

E. Preparedness

- 4.11 Progress in preparing the program has been deemed sufficient. Both the BCH and CNBS are appropriately structured to carry out the activities provided for in component I. In addition, the general terms of reference for hiring the consultants have been drawn up and a budget for each activity has been prepared. With regard to component II, AHIBA and CAHDA have been offering training courses and workshops for several years and have submitted their training plan for the two years covered by the program. As a result, no program implementation delays are expected after formalities are completed for the agreement to be signed by the executing agency and the Bank.

V. COST AND FINANCING

- 5.1 The total project cost is US\$2,428,120 of which the MIF will contribute US\$1,456,872 as a grant representing 60% of the funding (see Annex II). The participating institutions will contribute the remaining 40%. A summary of the projected costs for each component is presented in the table below.

BUDGET (US\$ 000)				
Component	Activity	MIF	Counterpart	TOTAL
1. Strengthening of the regulatory and prudential framework of the financial system.	a) Expanded supervision of non-banking intermediaries	171	114	285
	b) Expansion of the risk center	60	40	100
	c) Comprehensive protection system for financial institutions	277	185	462
	d) Integration of information systems	293	195	488
2. Program to improve the AHIBA training system.	Training courses and workshops for AHIBA staff.	300	200	500
3. Program to improve the CAHDA training system.	Training courses and workshops for CAHDA staff.	180	120	300
4. Final evaluation and auditing.		30	20	50
Contingencies		147	98	245
TOTAL		1457	971	2428
Percentage		60%	40%	100%

VI. PROJECT RATIONALE AND RISKS

- 6.1 The Honduran monetary authorities have implemented a gradual reform program and have never received a sector loan from the Bank. The purpose of this technical-cooperation project is to deepen the reforms and expand them to other financial subsectors and areas. Many banks are increasing their capital and making an effort to comply with a stricter regulatory framework. Non-banking institutions such as private pension funds, brokerage houses, credit unions and financial NGOs that were not included in the original reforms are growing rapidly in the absence of proper regulation.
- 6.2 In regard to the drafting of prudential regulations and charts of accounts for managers of pension funds and credit unions, it should be noted that no specific draft law yet exists for these subsectors. However, the law that created CNBS gives

it full authority and responsibility for supervising these subsectors, and through that mandate, the Commission will issue prudential regulations and create the necessary supervisory tools.

- 6.3 The program activities are consistent with MIF objectives, as the program will help create an appropriate regulatory framework for private-sector operations in all financial activities. The added value of the new operation lies in expanding prudential regulation to financial subsectors that were not included in the previous operation (ATN/MT-5235-HO) and incorporating any applicable international standards. The strengthening of the training systems of AHIBA and CAHDA for the benefit of financial-sector institutions provides further added value for this operation. And lastly, this program will be instrumental in meeting the conditions placed on the financial sector as indicated in the Background chapter. Honduras will be required to meet these conditions in order to reach the "completion point" under the HIPC Initiative.
- 6.4 A potential risk of the program is the perceived resistance on the part of financial institutions to comply with the supervision regulations in force, which could hinder the government's compliance with the provisions agreed with the IMF. Nevertheless, this program provides for consulting services to strengthen the systems used by CNBS and the BCH to protect the institutions in the sector, including an exhaustive study of bank compliance with the Basle principles. This study will provide the national authorities with the proper information for monitoring more effectively the performance of the sector and, if necessary, elements for any intervention deemed appropriate.

VII. CRITERIA FOR IMPLEMENTATION AND EVALUATION OF RESULTS

- 7.1 The BCH will present to the Bank annual plans of action for activities to be performed during the following period and semiannual progress reports on program implementation. Progress reports are to be submitted within 30 days after the end of each six-month period. The reports will contain a summary of activities performed during the period and will include a description of the tasks performed and degree of implementation of the project objectives, based on the targets and indicators specified in the logical framework in Annex I. Reports will also be submitted on problems encountered and their solutions.
- 7.2 Prior to the date of the final disbursement of resources from the MIF contribution, the Bank will contract the necessary consulting services to perform the final program evaluation. The BCH agrees to provide the Bank with the information required to perform this work.

VIII. EXCEPTIONS TO POLICIES AND PROCEDURES

- 8.1 None

IX. SPECIAL CONTRACTUAL CLAUSES

- 9.1 In addition to the standard clauses in the type of agreement that will govern the program implementation, the following stipulations will be made: prior to the first disbursement of the MIF contribution, the BCH will be required to present, to the Bank's satisfaction: (a) evidence that it has signed cooperative agreements with CNBS, AHIBA and CAHDA to take part in the program implementation, under the terms previously agreed with the Bank; (b) a plan of action for the activities to be performed in each component in the first year of implementation; and (c) designation of a coordinator for each institution participating in the program.

**LOGICAL FRAMEWORK
FINANCIAL SECTOR REFORM PROGRAM**

Objectives	Indicators	Means of Verification	Assumptions
For economic development and favorable climate for private	<ul style="list-style-type: none"> Financial system operating more efficiently and in compliance with internationally recognized prudential standards and principles. 	<ul style="list-style-type: none"> Reports and statistics on the status of the system published by the BCH and CNBS. 	<ul style="list-style-type: none"> The public and private sectors committed and interested in the sector reform process.
Financial sector reform process.	<ul style="list-style-type: none"> Modernization of the regulatory and prudential framework; and training in the applicable regulations for the Honduran Association of Banking Institutions, the Honduran Chamber of Insurance Companies and the regulatory and supervisory organizations. 	<ul style="list-style-type: none"> Program progress reports. Final program evaluations. 	
<p>ing of the regulatory and framework of the financial</p> <p>supervision of financial institutions in the system (banking and insurance financial institutions).</p>	<p style="text-align: right;">US\$1,333,120</p> <ul style="list-style-type: none"> Prudential regulations for each different institution prepared and implemented 18 months into the program. Charts of account for each different institution prepared and implemented 18 months into the program. Prudential regulations and charts of account for the private pension funds prepared and implemented 18 months into the program. Prudential regulations and charts of account for the insurance companies prepared and implemented 18 months into the program. <p style="text-align: right;">US\$285,120</p>	<ul style="list-style-type: none"> Annual plans of action. Contracting of specialized consultants. Reports on the various consulting services contracted to support the CNBS with the various activities envisaged. Semiannual progress reports on program implementation status. 	<ul style="list-style-type: none"> Timely, reliable information from participating institutions. Commitment on the part of institutions involved in adopting the core recommendations.

Objectives	Indicators	Means of Verification	Assumptions
of the risk center .	<ul style="list-style-type: none"> Risk center expanded and operating, and including all institutions (25 public and private banks, 3 savings and loan associations, 7 finance companies and members of cooperative federations) and covering 100% of the banks' portfolios, 9 months into the program. CNBS staff trained in risk center management expanded 24 months into the program. 	<ul style="list-style-type: none"> Contracting of consultants specialized in supervision and systems. Reports on the various consulting services contracted to support the CNBS with the various activities envisaged. Semiannual progress reports on program implementation status. 	
ive system of procedures to ancial institutions.	<p>US\$98,440</p> <ul style="list-style-type: none"> Resolutions and procedures implemented for monitoring liquidity, liquidation of bankrupt institutions and rescue of institutions in crisis 24 months into the program. Systems and procedures implemented for the Central Bank and CNBS for bank mergers, concentrating on technical aspects such as: accounting, tax impact, human resource management, and consolidation of services and branches 24 months into the program. 	<ul style="list-style-type: none"> Annual plans of action. Dissemination of resolutions adopted by the BCH and CNBS. Report(s) from consultants contracted to support the BCH and CNBS. Semiannual progress reports on program implementation status. Dissemination of resolutions adopted by the BCH and CNBS. Report(s) from consultants contracted to support the BCH and CNBS. Semiannual progress reports on program implementation status. 	
a of information systems of the ank and CNBS.	<p>US\$461,600</p> <ul style="list-style-type: none"> Information systems reconciled. Software designed and hardware purchased, and evidence of a shared database 12 months into the program. 	<ul style="list-style-type: none"> Annual plans of action. Reports from consultants contracted to support the BCH and CNBS. Semiannual progress reports on program implementation status. 	
ing of the training capacity of AHDA, CNBS and the BCH.	<p>US\$487,960</p> <p>US\$800,000</p>		<ul style="list-style-type: none"> Effective demand for training participating institutions in t covered by the program.

Objectives	Indicators	Means of Verification	Assumptions
for CNBS and the BCH.	<ul style="list-style-type: none"> Number of courses and workshops given. Number of CNBS professionals trained. 	<ul style="list-style-type: none"> Annual plans of action. Semiannual progress reports on program implementation status. 	
for banking sector professionals AHIBA.	<ul style="list-style-type: none"> Number of BCH professionals trained. 50 courses and workshops given. 25 banks, 7 finance companies, 3 savings and loan associations, 2 cooperative federations with 90 members as participating institutions and, in some cases, the BCH and CNBS. 2300 professionals trained (50 courses/year x 23 participants per course x \$200 unit cost x two years). <p>US\$460,000</p>	<ul style="list-style-type: none"> Annual plans of action. Semiannual progress reports on program implementation status. 	
for insurance sector professionals via CAHDA.	<ul style="list-style-type: none"> 40 courses and workshops given. 20 participating institutions (insurance co's, agents and brokers, BCH, CNBS and private enterprises). 1600 professionals benefited (40 courses/year x 20 participants per course x \$200 unit cost x two years). <p>US\$300,000</p>	<ul style="list-style-type: none"> Annual plans of action. Semiannual progress reports on program implementation status. 	
of financial products. (This involves developing a new market niches in order to provide financial services.)	<ul style="list-style-type: none"> Surveys conducted by AHIBA to determine what type of products are of interest to the banking system for development. Dissemination campaigns by AHIBA to encourage financial institutions to seek new market niches. <p>US\$40,000</p>	<ul style="list-style-type: none"> Semiannual progress reports on program implementation status. 	

PROPOSED RESOLUTION

**HONDURAS. NONREIMBURSABLE TECHNICAL COOPERATION FOR A
STRENGTHENING PROGRAM FOR THE FINANCIAL SECTOR**

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the "Banco Central de Honduras" and to take such additional measures as may be pertinent for the execution of the donor's memorandum referred to in Document MIF/AT- with respect to a technical cooperation for a Strengthening Program for the Financial Sector.
2. That up to the amount of US\$1,457,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Technical Cooperation Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.