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MULTILATERAL INVESTMENT FUND

REGIONAL

**(COSTA RICA, THE DOMINICAN REPUBLIC, EL SALVADOR, GUATEMALA, HONDURAS,
AND NICARAGUA)**

STRENGTHENING AND HARMONIZATION OF PAYMENT SYSTEMS

(TC-03-04-00-9-RG)

DONORS MEMORANDUM

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INFORMATION AVAILABLE IN THE RE2/FI2 TECHNICAL FILES

Preparation:

Terms of reference of the program coordinator

Execution:

Itemized budget

Project performance monitoring report (MPPMR)

ABBREVIATIONS

CESI	Committee on Environment and Social Impact
CAMC	Central American Monetary Council
ESCAMC	Executive Secretariat of the Central American Monetary Council
IMF	International Monetary Fund
RTGS	Real-time gross settlement
SWIFT	Society for Worldwide Interbank Financial Telecommunication

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EXECUTIVE SUMMARY

Executing agency:	Executive Secretariat of the Central American Monetary Council (ESCAMC), San Jose, Costa Rica		
Beneficiaries:	Users of the payment systems, especially those with sizeable treasury operations (large corporations, banks, stock exchanges, finance ministries).		
Amount and source:	MIF (Facility I):	US\$	900,000 (56%)
	Local:	US\$	700,000 (44%)
	Total:	US\$1,600,000	
Objectives:	<p>The general objective of the project is to strengthen payments systems in Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua and as a means of preventing systemic financial crises in the region. The specific objective is to create suitable conditions for a platform of basic standards for development of a regional payments system.</p> <p>The program will help the Central American Monetary Council establish a Framework Law to regulate the regional payment system; to identify minimum operating standards in keeping with the Basel principles; to establish by law a separate system for real-time gross settlements large-value payments; to adopt a risk management method, a common technology platform; and a training plan.</p>		
Components:	The program has three components: (I) regulatory framework and risk management, (II) technology infrastructure for real-time settlements, and (III) training.		
Terms:	Execution:	36 months	
	Disbursement:	42 months	
Environmental and social review:	The Committee on Environment and Social Impact reviewed and approved the Project without comments on 3 October 2003 (CESI 36-03).		

Special contractual clauses:	As a condition precedent to the first disbursement, the executing agency will demonstrate that: (i) the Program Coordinator has been selected; and (ii) the Central Banks are committed to contributing resources for the program and to fulfilling the other commitments described in paragraph 9.1.
Coordination with other organizations:	A regional committee will ensure that national projects supported by the World Bank complement the present project (paragraph 2.8).
Exceptions to Bank policy:	None.

I. BACKGROUND AND JUSTIFICATION

A. Background

- 1.1 Payment systems consist of all the instruments, procedures and systems used in interbank funds transfers to assure the circulation of money, as well as the institutional, legal, and operational framework for making such payments.
- 1.2 Secure and efficient payment systems are essential for financial sector stability, to facilitate economic transactions and monetary policy. Two payment systems are systemically important due to the significance of their flows and their impact on financial sector participants: the check clearing house and bilateral funds transfers between central bank reserve accounts.
- 1.3 In Central America, payment systems essentially operate by way of check clearing houses processing both large- and low-value transactions. In 2001, the clearing houses in the region processed 5.8 million operations each month, whereas bilateral funds transfer mechanisms handled 8,460 operations a month.

B. International payment system regulations

- 1.4 Payment systems regulations were enacted recently and are still being brought up to date. In 2000, the Committee on Payment and Settlement Systems of the central banks of the Group of Ten countries (G-10) contributed to this process through the Basel Bank by developing basic principles for payment systems that were systemically relevant. The general trend has been to implement these principles.

C. Problems with national payment systems

- 1.5 The central banks of the Central American Monetary Council member countries (Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua) asked the World Bank and the Center for Latin American Monetary Studies to assess of their payment systems. The work was carried out in El Salvador (December 2000), Costa Rica (June 2002), Honduras (March 2003), and the Dominican Republic (March 2003). The diagnostics revealed the following problems: (1) disparities in the level of development of national payment systems; (2) limited legal security for some transactions; (3) small- and large-value payment systems were not separate; and (4) poor risk management mechanisms.
- 1.6 The first problem has to do with the absence of a suitable legal framework to meet the needs of advanced payment and modern financial systems. Essentially, this means there is no legislation on payment strength and finality. Such legislation is needed to modernize payment systems and achieve greater operational efficiency in financial system liquidity management. In order to minimize the systemic risk arising from liquidity pressure, the traditional treatment afforded payment obligations in bankruptcies must be amended in the Civil and Commercial Codes.

In addition, there are legal shortcomings in risk management schemes, guarantee administration and statutory recognition of clearing house netting.

- 1.7 The second problem is that the development levels and basic operating standards of regional payment systems are not uniform. For example, there are different levels of clearing house automation, a wide variety of technology platforms, and different operating standards. Only one country has a real-time bilateral funds transfer system. It is therefore not easy from a functional and operational perspective to achieve intraregional connectivity for payment systems.
- 1.8 The third problem is that low-value and large-value payment systems are not separate. Low-value payments, characterized by a large volume of low amount operations, which involve therefore less systemic risk, are processed by clearing house netting with payment deferred (T+1 or T+2 settlement). Large-value payments, however, must be processed one by one, bilaterally, in the shortest possible time because they pose potentially greater systemic risk. In Central America, large-value payments are processed by the clearing system, thus adding in large measure to the latent financial systemic risk that already exists.
- 1.9 The fourth problem is the weakness of risk management mechanisms. The most common payment system risks are: (i) liquidity; (ii) credit; and (iii) systemic. Other risks include legal (weak legal transaction security), technology (information system malfunctions), and effects of financial integration (possible cross-border transactions linked to money laundering). In general, there are no risk management mechanisms for large-value check clearing or for management of bilateral funds transfer system liquidity. Payment systems are vulnerable because they operate without guarantee fund backing. The scant information available is concerned more with monetary policy supervision than payment system risk management. The minimum holdings in bank reserve accounts at the central bank could generate intraday liquidity problems for the clearing house, creating a dangerous situation for the payment system. The introduction of risk management tools would minimize such problems.
- 1.10 The crisis transmission mechanism begins with the payment systems. Limited access to payment system services, shortcomings in the information and management systems, and internal risk controls are cited among the factors contributing to the Asian crisis. In 2001, rumors about Argentine devaluation directly affected capacity to meet payment operations. The ensuing run on deposits once the crisis began, undermined confidence in the payment and financial system in general. In Costa Rica, Guatemala, Honduras, and Nicaragua, the payment system had to reverse operations thus transferring risk to the State. Although the central banks in these countries acted swiftly to effectively prevent the crisis from spreading, the end results were quasi-fiscal deficits further burdening national treasuries and payment system efficiency.

- 1.11 Because of these problems, the payment systems that presently exist in the region are unable to operate efficiently. They cannot support large-value operations, a situation that is bound to worsen as regional financial integration intensifies and new trade or investment agreements are entered into with other countries. The present project aims to improve the payment and risk management systems in the countries of the region, thus setting the stage for development of a harmonized regional system in the future. The project components are in line with the recommendations presented in the World Bank and International Monetary Fund country assessments, and the views of the Central American Monetary Council. The MIF additionality arises from project support for a specific regional operation, which is to develop a real-time gross settlement platform. The World Bank intends to continue supporting the Dominican Republic and Honduras with their payment systems. The CAMC agreed with the central banks that this project should not duplicate but complement the efforts of other projects.

D. Rationale

- 1.12 The present project satisfies the MIF eligibility criteria for a grant under the Technical Cooperation Facility (Window I). The project is consistent with the MIF's mission of promoting a regulatory and institutional framework for activities in the financial sector.
- 1.13 The project has been designed as a regional operation for the benefit of Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua, given its aims of (1) strengthening payment systems in five member countries of the Puebla-Panama Plan and in the Dominican Republic; (2) providing legal certainty for transactions; (3) creating risk management mechanisms to make the payment system less vulnerable; (4) establishing minimum standards for harmonization of payment mechanisms; (5) creating a real-time gross settlement system for large-value payments; and (6) building a uniform regional technology platform. The project is also consistent with the Bank's strategy for the financial sector in all of the countries concerned.
- 1.14 The project is intended to improve the national payment system of the participating countries and configure a minimum platform conforming to international standards, paving the way to subsequent regional harmonization. In addition to benefiting payment system users, the project will also support the development of interbank and public debt markets, while expediting monetary policy implementation. Systemic risk will diminish as a result of a smooth payment mechanism with risk management components and a security network to prevent contagion from volatility in other parts of the financial sector.
- 1.15 The expected benefits will be amplified not only because of the project's regional dimension, but because it will encourage the development of regional financial conglomerates in payment systems, based on common standards similar to

international ones. Furthermore, the project will directly impact financial sector competitiveness through implementation of standards requiring homogenous platforms, with consequential cost reductions and service innovations and customer care for corporations and individuals.

- 1.16 The importance of this project stems from the impact it will have on the process of financial integration led by private agents now using private platforms to initiate cross-border movements of money over which central banks and financial authorities have little information or oversight capacity. This situation poses high risks to the financial system and payments systems in particular.

II. PROJECT OBJECTIVES AND BASIC COMPONENTS

A. Program objectives

- 2.1 The general objective of the project is to strengthen payments systems in Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua as a means of preventing systemic financial crises in the region. The specific objective is to create suitable conditions for building a platform of basic standards for development of a regional payments system. To this end, a series of harmonized standards for payments systems will be developed for the beneficiary countries, and a Framework Law will be drafted for regulation of the regional payment system that the participating countries would together adopt in accordance with the legislation in effect in each country and in accordance with the Protocol of the Central American Economic Integration Treaty. This framework legislation need not be adopted by the countries for the program to be successful in attaining its objectives.
- 2.2 To attain these objectives, the program will support the Executive Secretariat of the Central American Monetary Council (ESCAMC) in: drawing up a Framework Law to regulate the regional payment system; identifying minimum operating standards in keeping with the Basel principles; establishing by law a separate system for real-time gross settlement large-value payments; adopting a risk management method to improve existing systems at central banks in the region; designing a standard regional data processing platform that can be adjusted to national requirements; and developing a training plan.

B. Components

- 2.3 The program has three components: (i) regulatory framework and risk management for payment systems, (ii) technology infrastructure for real-time settlements, and (iii) training plan.

1. Component I. Regulatory framework and risk management (MIF US\$368,000; Local US\$295,000)

- 2.4 This component will focus on helping the countries to correct those shortcomings in the legal framework and in the risk management and operational areas that hamper payment system interconnectivity in the region. This objective will be attained by identifying sections of the Commercial Code and other legislation in each country that need to be amended to make payment operations irreversible once they enter the payment system and liquidity has been verified. To this end, the CAMC will adopt a resolution recommending that a framework law be enacted to regulate the regional payments system, as well as an oversight model, and will regulate the way in which the regional payments system is protected to detect or prevent illegal operations (money laundering and terrorism financing). Given the regional nature of CAMC regulations, the Resolution would be observed by all member countries. This legal framework is intended to become the minimum standard for each country. Greater legal security in national payment systems will be the foundation on which to develop a regional payment system. It will also serve as a basis for promoting foreign investment under a future Free Trade Agreement with the United States. However, adoption of this legal framework by all the countries is not a requirement for developing the other components or meeting program objectives because progress is possible under existing central bank regulations. The legislation in each country that needs to be changed will be identified, but actual amendment would be deferred and will depend on decisions in the country concerned.
- 2.5 Activities under this component will include: reviewing the regulatory framework governing each country's payment system, and identifying minimum standards on which to develop a regional large-value payment system (RTGS), with the associated risk management scheme. A Senior Technical Advisor will be contracted to work on all three components. Five consultants will be hired to work under this component (a lawyer; an expert in settlement systems and guarantee fund models; a records, monitoring and security expert; a risk management design expert, and an expert in linkage and cross-border payment systems). Their task will be to define a harmonized formal and legal conceptualization of the payment systems, the scope of existing regulations, and the specific needs of real-time gross settlement large value payment systems to lessen liquidity risks and eliminate credit risk. In coordination with the consultants, ESCAMC will organize eight regional seminars and workshops to identify guidelines and minimum policies, and to standardize functional and legal rules.
- 2.6 Performance indicators include: (1) approval of the CAMC resolution containing the draft legal security framework law applicable to payment systems, for enforcement by member countries; (2) payment system regulation and supervision models; (3) guidelines and minimum standards; (4) multilateral subsystem risk management and guarantee fund; (5) functional and financial design of the real-

time gross settlement large-value payment system; and (6) monitoring model for protection against illegal operations.

2. Component II. Technology infrastructure for real-time settlements (MIF US\$321,000; Local US\$155,000)

- 2.7 The component addresses incompatibilities between the technology platforms used in the countries, and the development of a model for interconnection of the payment systems. To achieve appropriate regional connectivity, national payment systems must be strengthened, moving towards greater uniformity. Direct consultancy services will help introduce minimum common features and a basic technology platform.
- 2.8 This component is intended to coordinate and develop existing technology platforms, while defining communication procedures among central and regional banks in order to identify and recognize the best communications and security options for intraregional payment transactions. At the outset, working groups will be established in each country, and coordinated at the regional level through the ESCAMC. The groups will receive technical support from institutions and experts in payment system technologies. Work will be conducted through specialized technical training and discussion sessions addressing the different technology development options. A regional payment systems technical committee will be created to ensure that similar projects on the same topic funded by the World Bank, the IMF, or other institutions, complement rather than duplicate the activities carried out under the present project. In addition, a documentation center will be set up as a support platform for a program library, to help with records systems, information sharing, national network and regional platform security, and for establishment of links to web pages. A data processing consultant will be contracted for the duration of the project to help countries implement the activities under the three components. A technology system will be designed to facilitate transmission, processing, and security of these transactions so that the proposed cross-border payments standards can be reduced to law. The information systems consultant will prepare the terms of reference and supervise the development of software applications and data transmission services by a consulting firm in years two and three of the project.
- 2.9 The following activities and outcomes are contemplated under this component: (i) design of a standard technology framework for large-value payment systems; and (ii) design of a regional payment systems model that is interconnected at the institutional, functional, operational, and technology levels. The following indicators will be used: (1) a real-time gross settlement manual; (2) one half of the countries have adopted the large-value payment system and its regional interconnection model; and (3) at least one half of large-value transactions are settled on the basis of RTGS.

- 2.10 The proposed payment system will not replace the SWIFT financial transaction processing system. The SWIFT system provides a door-to-door service for transfer of payment orders locally and internationally, but does not complete the clearing or internal settlement processes. Additional internal processes and external providers are needed to close the cycle.

3. Component III. Training and dissemination plan (MIF US\$132,000; Local US\$130,000)

- 2.11 The objective under this component is for all countries in the region to attain the same degree of functional and operational skill and competency in payment systems management. The goal is to have sound technical counterparts in each country. Training for this specialized human capital ensures that the project will be sustainable after completion.
- 2.12 This component will provide for specialized training in specific functional aspects relating to national payment systems that, because of development differences, have not been addressed to a sufficient degree by some countries. Teaching plans will be drawn up, and training provided through courses, seminars, distance education, internships in other countries, and advisory assistance from international consultants. Training areas include risk and liquidity management, guarantee funds, financing models, monetary surveillance, early warning and security systems, securities settlement and registration, large-value payment systems (RTGS), cross-border payment schemes, and registry and validation.
- 2.13 Four consultants will be contracted to conduct two seminars, three workshops, two training courses, and in-service training in other countries. In addition, the consultants assigned to the first two components will also be actively involved in training the individuals in charge of each country's payment system.

III. COST, FINANCING AND SUSTAINABILITY

A. Cost and financing

- 3.1 The program will cost approximately US\$1.6 million, of which the MIF will provide nonreimbursable financing in the amount US\$900,000 (56%) from Facility I. The remaining US\$700,000 (44%) will be furnished by the Executive Secretariat of the Central American Monetary Council (ESCAMC) in the form of local counterpart resources, of which at least 50% will be in cash. The ESCAMC budget is funded by quotas periodically contributed by the central banks. In addition, the central banks have pledged resources that could be recorded as counterpart funding, a commitment to be made official through letters to the ESCAMC and the MIF. The estimated project budget is shown in the table below.

Budget: Regional payment systems (in US\$)			
Components	MIF	Local counterpart	Total
I. Regulatory framework and risk management	368,000	295,000	663,000
II. Real-time settlement platform	321,000	155,000	476,000
III. Training and dissemination plan	132,000	130,000	262,000
Program coordination		120,000	120,000
Monitoring and evaluation	38,000		38,000
Audits	15,000		15,000
Contingencies	26,000		26,000
Total	900,000	700,000	1,600,000
Percentage	56.0%	44.0%	100.0%

B. Sustainability

- 3.2 Program objectives will be sustained, thus guaranteeing that national payment systems will be strengthened and a package of minimum standards identified for a regional payment system. In their capacity as payment system administrators, central banks will assure program continuity upon completion of this operation. Implementation of real-time gross settlement (RTGS) for large-value payments will also minimize financial activity risks. The logical framework provides indicators to determine project sustainability over time.

IV. PROJECT EXECUTION

A. Executing agency

- 4.1 The Executive Secretariat of the Central American Monetary Council (CAMC) will be the executing agency. The CAMC is a technical administrative body attached to the Central American Economic Integration subsystem, made up of the Presidents of the member country central banks. The Council has an Executive Secretariat (ESCAMC) that function as the Council's technical administrative arm. The ESCAMC, based in San Jose, Costa Rica, has legal status under international law pursuant to the Protocol of the General Treaty on Central American Economic Integration. It is administered by an Executive Secretary elected by the Council for a four-year term.
- 4.2 The ESCAMC has a technical body with expertise in coordinating and monitoring regional policies, and a very effective system of relations with central banks and offices of banking supervision throughout the region. Staff competency and training is above the average encountered at similar organizations, with access to training facilities in its field. Staff turnover is low.

- 4.3 The performance of the ESCAMC was satisfactory as executing agency for a project to harmonize public debt security markets in Central America, Panama, and the Dominican Republic (ATN/MT-7357RG), with MIF support, which was completed satisfactorily on 31 May 2003. The evaluation report requested by the MIF indicates that the technical management for the project was excellent.

B. Execution mechanism

- 4.4 **Administration.** The program will have one Coordinator, who will be responsible for monitoring of the goals and indicators and for supervision of the budget and consultants contracts.
- 4.5 **Execution and disbursement periods.** The program will be carried out over 36 months and the funds will be disbursed over a period of 42 months. A revolving fund in an amount equivalent to 10% of the MIF contribution will be set up and administered in a separate account, from which disbursements may be drawn. The executing agency will submit semiannual financial statements on the status of the revolving fund to the Bank's Country Office in Costa Rica. Disbursement of grant funds, procurement of goods, and consulting services contracts will be carried out in accordance with Bank and MIF procedures.
- 4.6 **Accounting and auditing.** ESCAMC will keep internal accounting records and supervise project funds in such a manner as to facilitate transaction verification and timely preparation of statements and reports. Project files will be organized in such a way as: (a) to identify the amounts received from various sources; (b) to report on expenditures made in accordance with the chart of accounts approved by the Bank, distinguishing those made with MIF resources and those made with local counterpart funds; and (c) to include details for identifying consultancy services retained, and their use. The ESCAMC will open separate bank accounts to administer the MIF contribution and local counterpart funds. In addition, it will submit a final financial statement of project expenditures charged to the IDB contribution and to the local counterpart funds within 90 days following the last disbursement, audited by an independent auditing firm acceptable to the Bank, based on the previously approved terms of reference.

V. MONITORING AND EVALUATION

- 5.1 The Country Office of the Bank in Costa Rica will supervise project execution. For monitoring purposes, the executing agency will prepare a semiannual progress report based on the objectives and indicators contained in the logical framework in a format acceptable to the Bank within 30 days after the close of each calendar six-month period. Also, it will prepare a final report on the program for delivery to the Bank within 30 days after completion of the program.

- 5.2 The executing agency will submit to the Country Office copies of all the reports and documents prepared by the consultants hired for project execution. This information will be used by the Country Office to monitor the project during the semiannual periods and will serve to justify disbursement requests.
- 5.3 The Bank will hire independent consultants to evaluate the project at month 20 or after 30% of the MIF resources have been disbursed, and to conduct a final evaluation three months after project completion and prior to the final disbursement. These evaluations will detail: (i) the degree of activity completion; (ii) compliance with logical framework objectives and indicators; and (iii) executing agency performance.

VI. BENEFICIARIES, EXPECTED RESULTS, AND RISKS

- 6.1 The direct beneficiaries of the project will be all payment system users. Participants involved in large treasury operations (large corporations, banks, stock exchanges, finance ministries) will benefit the most.
- 6.2 The value added from this operation lies in the MIF support for greater legal security for financial transactions in the region. This aspect is key to: (1) promoting sound development of the private and public securities market; (2) minimizing the risk of financial sector crises; (3) restricting money laundering and terrorism financing; and (4) promoting foreign investment under a future Free Trade Agreement with the United States. The project will also strengthen the payment systems of the Central American countries and the Dominican Republic, reducing systemic risk. Furthermore, the project complies with the MIF objectives of supporting processes to develop regulatory frameworks and institutional strengthening in the financial and capital markets.
- 6.3 The major risk associated with the program is the continued proliferation of private payment systems and the parallel expansion of cross-border banking and other capital market intermediaries. Such risk arises when the central bank has neither operating control nor information regarding these cross-border operations. A harmonized payment system controlled and supervised by the monetary authorities of the countries in the region is needed to mitigate this specific risk. It is also safe to say insufficient counterpart technical personnel could undermine the project. Such technical personnel is essential not only for the success of the project, but also for development of a tight network of internal and regional relations needed to design a regional payment system targeting and involving, in addition to the central banks, banks, stock exchanges, finance ministries and treasuries, among others. The project itself will mitigate these two risks.

VII. ENVIRONMENTAL AND SOCIAL IMPACTS

- 7.1 The Committee on Environment and Social Impact reviewed and approved the project without comments on 3 October 2003 (CESI 36-03). Given its nature, the project will have no direct or indirect negative environmental or social impacts.

VIII. EXCEPTIONS TO BANK POLICIES AND PROCEDURES

- 8.1 There are no exceptions to Bank policies.

IX. SPECIAL CONTRACTUAL CONDITIONS

- 9.1 As conditions precedent to the first disbursement, the executing agency must demonstrate, to the Bank's satisfaction, that: (i) the program Coordinator has been selected; and (ii) the central banks of the participating countries are committed to (a) contributing resources earmarked for the program that may be used as part of the counterpart funding; (b) appointing officials to represent their respective countries in the "working group" contemplated under the program; (c) participating in program activities including training and assistance for workshops that are organized as well as support for program consultants in the performance of their tasks; and (d) encouraging the competent national authorities in each country to adopt the standards the Monetary Council has recommended for development of a regional payments system and to make any necessary adjustment to such standards.

LOGICAL FRAMEWORK
REGIONAL: STRENGTHENING AND HARMONIZATION OF PAYMENT SYSTEMS

NARRATIVE SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	VERIFICATION TOOLS	ASSUMPTIONS
<p>Aim:</p> <p>Establish robust national payment systems in the region that are harmonized with one another for greater transaction security.</p>	<p>The central banks have adopted Basel principles for systemically-relevant payment systems.</p> <p>The design of a regional payments system model has been approved by the CAMC and accepted by the countries.</p>	<p>Project completion report (PCR)</p>	<p>The aim of national economic policy is to maintain financial sector stability.</p>
<p>Purpose:</p> <p>Strengthen the payment systems of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic so that they are less vulnerable to systemic risk.</p>	<p>Upon completion of the program:</p> <ol style="list-style-type: none"> Standards that conform to Basel Principles on regulation and supervision of payment systems implemented in the countries. Real-time gross settlement large value payment systems functioning in at least 3 countries. Risk-management methods introduced in all countries. 	<p>Periodic reports describing:</p> <ol style="list-style-type: none"> Status of each central bank comparing its regulatory and risk management framework to ESCAMC recommendations Each country's progress in implementing the ESCAMC recommendations. Project completion report. 	<ol style="list-style-type: none"> The CAMC member central banks have a genuine desire to integrate and harmonize efforts to improve their payment systems. Each country's central bank is committed to implementing best practices for a large-value regional payment system.
<p>Components:</p> <p>Component I:</p> <p>Regulatory framework and risk management</p> <ol style="list-style-type: none"> Harmonize the regulatory framework governing the operation of payment systems in CAMC member countries. Harmonize standards so as to establish a large-value regional payment system and a risk management system. 	<ol style="list-style-type: none"> Draft bill on legal security of payment systems completed by mid-point of program. CAMC Agreement containing minimum guidelines and standards in the region approved by mid-point of program. 	<p>Copies of the Council's Resolution, formal recommendations, and draft bills.</p> <p>Semiannual project execution reports.</p>	<p>Central banks have the internal resources to implement the ESCAMC recommendations in their countries.</p>

NARRATIVE SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	VERIFICATION TOOLS	ASSUMPTIONS
	<ol style="list-style-type: none"> 3. Multilateral subsystem risk management designed by mid-point of program and introduced upon completion. 4. Real-time gross settlement large-value payment system adopted by CAMC by the end of the program. 5. Illegal transactions surveillance model designed by mid-point of program. 		Consulting services available as and when required
<p>Component II: Technology infrastructure for real-time gross settlement</p> <ol style="list-style-type: none"> 1. Coordinate existing technology platforms. 2. Consider the communications procedures between central and regional banks to determine best practices in communications and transaction security for intraregional payments. 	<ol style="list-style-type: none"> 1. 50% of the countries adopted the large-value payment system and its regional interconnection model. 2. RTGS is used for at least 50% of large-value transactions. 3. The working groups to harmonize payment system technologies formed by the beginning of year two. 4. Real-time gross settlements manual ready by mid-point of program. 5. Security standards introduced. 6. Working group recommendations implemented until end of program. 	<p>Copies of recommended manuals and methodology.</p> <p>Semiannual country progress reports.</p> <p>Reports on pilot plan results.</p>	Central banks are willing to create a real-time gross settlement regional technology platform.
<p>Component III: Training and dissemination plan</p> <p>Develop technical capacity of central bank staff to use the large-value payment system and the regional payment system.</p>	<ol style="list-style-type: none"> 1. 40 payment systems officers trained at a seminar on “Risk and Liquidity Management” at mid-point of program. 2. 25 data processing officers trained at seminars on RTGS and securities settlement and registration by month 20. 	<p>Copy of the content of seminars, courses, and workshops.</p> <p>List of seminar participants and participant evaluation of each seminar.</p> <p>Detailed semiannual country progress reports.</p>	

NARRATIVE SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	VERIFICATION TOOLS	ASSUMPTIONS
	<p>3. 25 officials trained in courses on “Guarantee Funds and Financing Models” by the end of the program.</p> <p>4. 45 officials trained at six national information workshops linking system operators and users. Open to Treasuries, stock exchanges, banks and banking associations throughout the region.</p>		

[illegible]

Summary: Budget for strengthening of payment systems			
	MIF	COUNTERPART	TOTAL
Senior Advisor	253,900		253,900
Coordinator	68,700		68,700
			0
ACTIVITIES			0
Establishment of standards	45,550	60,000	105,550
Workshops	113,200	380,000	493,200
Computer systems	321,400	60,600	382,000
Coordination	18000	200,000	218,000
Evaluation	38,800		38,800
Audits	15,000		15,000
Contingencies	26,000		26,000
TOTAL	900,550	700,600	1,601,150