

PROGRAM IN SUPPORT OF THE FINANCIAL SECTOR IN EL SALVADOR

(ES-0115)
(TC-98-08-27-3)

EXECUTIVE SUMMARY

BENEFICIARIES: Financial System Superintendency (SSF)
Deposit Insurance Institution (IGD)
Securities Exchange Superintendency (SV)
Pension Superintendency (SP)
National Council of Judges (CNJ) through the
School for Judicial Training (ECJ)

BORROWER: Republic of El Salvador

EXECUTING AGENCY: Presidential Commission for Modernization of the
Public Sector (CPMSP), with the participation of the
beneficiary entities.

AMOUNT AND SOURCE: MIF: (Facility 1,
nonreimbursable) US\$2,962,200
IDB TC loan (OC): US\$3,802,000
Local counterpart: US\$3,178,300
Total: US\$9,942,500

**FINANCIAL TERMS
AND CONDITIONS
OF THE LOAN:** Amortization period: 20 years
Interest rate: Variable
Inspection and supervision: 1.00%
Credit fee: 0.75%
Currency: U.S. dollars (Single
Currency Facility)

TENTATIVE DATES: Loan Committee: November 1998
Board/Donors Committee: December 1998

OBJECTIVES: The general objective of the program is to contribute
to the stability and solvency of El Salvador's
financial system by strengthening the supervisory
agencies for the financial sector. The specific
objectives are to: (i) strengthen the technical
capacity of agencies responsible for supervising the
financial sector; (ii) introduce modern management
tools within these institutions; and (iii) build a
basis for cooperation and coordination between these
agencies to maximize the effectiveness of financial
supervision in El Salvador.

DESCRIPTION: The program consists of a series of components to
improve the capacity of the participating agencies

individually, while at the same time encouraging and facilitating coordination, cooperation, and the smooth flow of information between them.

Components financed with MIF resources:
(i) implementation of a planning and monitoring system (US\$290,000); (ii) human resource management (US\$543,500); (iii) strengthening management of the technological platform (US\$360,000); (iv) introduction of international accounting principles in the financial sector (US\$305,000); (v) training program for judges and commercial arbitrators (US\$230,000); (vi) establishment of the Deposit Insurance Institution (US\$405,000); (vii) strengthening of the Financial System Superintendency (US\$1,845,000); (viii) strengthening of the Securities Exchange Superintendency (US\$405,000); (ix) strengthening of the Pension Superintendency (US\$465,000).

Components financed with IDB resources (US\$3,802,000): Component (x) would strengthen technology management, through the development of a short- and medium-term technology strategy and investment plan for the three superintendencies. The resources supplied by the IDB for component (x) would be used to carry out the investment plan for the modernization of technological resources.

IMPACT ON POVERTY: Not applicable.

PROCUREMENT THRESHOLDS: Following the approach taken for other projects in El Salvador, international competitive bidding will be mandatory for the procurement of goods and services in amounts above US\$350,000, and consulting services in amounts above US\$200,000.

The detailed program of goods and services contracting will be defined in the operating plans. For each operating plan, the corresponding procurement plan will require clearance by the Bank.

ENVIRONMENTAL AND SOCIAL REVIEW: This project will not have an impact on the environment.

RISKS: Effective cooperation between the program executing agencies will be necessary if the program is to be successfully executed. Problems with the decision-making process among Superintendents could create serious obstacles to proper program execution. Both the Superintendents and the President of the Central Reserve Bank of El Salvador (BCR) have expressed support for the program. Furthermore, the Committee of Superintendents (CS) has already been working

effectively in its risk assessment capacity. Through the present program, the CS's work program will be expanded. Establishment of the Technical Unit (UT) and support from the CPMSP will also facilitate the decision process by providing operational support and technical assistance to the CS.

Budget restrictions of one or several of the coexecuting agencies may cause delays in program execution. As mentioned earlier, this program has the full support of Salvadoran authorities. The application of some of the measures may result in savings that could be used to defray the counterpart costs.

In the systems area, it is essential to avoid the excessive procurement of hardware or software that has not been planned as part of a comprehensive information systems strategy. The annual operating plans will provide the main tool for minimizing this risk, which will make the Bank's technical support particularly important.

**EXCEPTIONS TO
BANK POLICY:**

There are no exceptions to Bank policies.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

As conditions precedent to the first disbursement of the TC loan and the MIF TC operations, the CPMSP, SSF, SV, SP, and ECJ will: (i) designate the officials who will serve as their program coordinators; and (ii) implement the Operating Regulations and agreements between the CPMSP and the SSF, SP, SV, and CNJ.

As a condition precedent to disbursements for establishment of the Deposit Insurance Institution under component (ix), (corresponding to the MIF TC operations) legislation must have been enacted to authorize the creation of this institution.

I. FRAME OF REFERENCE

A. Background

- 1.1 In 1991, with the assistance of several Bank and MIF operations, the Government of El Salvador began a process that has transformed the financial sector. Since its privatization, El Salvador's banking system has been developing at an accelerating pace, and today, Salvadoran banks have become the most dynamic and competitive financial institutions in Central America. Growth in the securities market, albeit centered mainly on money-market transactions, has been rapid and extremely dynamic. The capital market is about to be transformed by an inflow of savings channeled through private pension funds, which began operating in the country in April 1998.
- 1.2 Coupled with these trends, however, is greater risk. The financial system is showing a high level of concentration and is dominated by large financial groups. A weak regulatory framework and supervisory capacity has prompted some of these groups to develop non-transparent structures and operations of questionable security. With the failure of two financial institutions in the middle of last year (one official and the other illegal), El Salvador's banking system has been showing signs of instability. Public confidence in the soundness of financial institutions was affected and has been recovering only recently.
- 1.3 In response to the situation, the authorities are proposing legislation (Acts Governing the Central Reserve Bank of El Salvador (BCR), the Financial System Superintendency (SSF), and the Banking Sector) that will introduce profound changes in the legal framework for financial activity, assigning new responsibilities to the supervisory institutions, particularly with respect to the consolidated supervision of financial groups, intervention in the case of troubled intermediaries, risk control systems, and sanctions for illegal activities. A Deposit Insurance Institute (IGD) will be established and given responsibility for the administration of deposit insurance and the management and sale of viable banks that have been put under government control.

B. IDB assistance

- 1.4 The execution of MIF operation ATN/MF-4471-ES, in the amount of US\$1.8 million, was recently brought to successful completion. ^{1/} The resources for this operation were intended

^{1/} The Bank has approved several operations in support of the financial sector that have been successfully executed, including an investment sector operation, two global credit programs, and a global credit operation for microenterprise.

mainly for the Insurance Commission and the new Securities Exchange Superintendency (SV) and Pension Superintendency (SP). Nearly 80% of the available resources were invested in development of the regulatory framework, design and introduction of operating manuals, the development of technical support programs, and training for the agencies concerned. The rest was invested primarily in an emergency assistance plan for the Banking Commission. The original technical cooperation program, which was designed to provide support to a particular institution, had to be modified to adapt it to the urgent needs of these new agencies (a more detailed description of the execution of this technical cooperation operation is available in the project files).

- 1.5 Through the above-mentioned program, the SSF, SV and SP have made great progress in improving their supervisory capacity, enabling them to detect weaknesses in the regulatory and institutional framework of the financial system. These weaknesses have shown the need to continue supporting efforts to strengthen the oversight agencies, whose technical capacity and legal authority are continually being tested, and may ultimately be overwhelmed by the drive and creativity of the financial sector.

C. Management within the superintendencies

- 1.6 Most of the assistance being provided to these agencies has been designed to improve their technical capacity to respond to the complex tasks assigned to them. However, management practices and procedures have not been strengthened and this has been an obstacle to sound institutional development and optimum use of the assistance provided. None of the agencies has an effective planning and control system enabling it to establish policies, objectives, and goals, allocate resources rationally, and monitor compliance with targets. One of the consequences of this situation is a failure to take advantage of the obvious possibilities for cooperation among the various supervisory agencies to streamline work, share information, and lower costs.
- 1.7 Personnel management, including training, is essentially an ad hoc process – not one based on established plans and policies. There is still no rational system for assigning functions on an objective basis that would consider possibilities for cooperation between agencies. Nor is there a policy of incentives based on clear goals designed to make the most of budget resources in recruiting, retaining, and developing top-caliber staff.
- 1.8 The management and application of technology could be substantially improved and should be geared to standardizing the technological platforms put in place by the various supervisory agencies on the basis of an information technology strategy and investment plan. Where technology investment plans do exist they have been designed individually for each agency without properly considering the possibilities of sharing databases and applications with other

agencies. Nor have these plans sufficiently taken into account the limited ability of the entities being supervised to generate the data required in a form that can be directly processed by the information systems.

D. Technical capacity of the superintendencies

- 1.9 Financial groups are using increasingly sophisticated mechanisms and structures, which makes effective supervision of their activities difficult. The consolidated supervision of these groups and their increasingly frequent international activities presents the supervisory system with difficult challenges in areas where experience is limited. Supervision of these groups and the banks comprising them will require a major effort from the SSF, whose success will depend on better human and technical resources. In addition, rapid growth in the volume of resources administered by private pension funds, in the context of an emerging securities market, will require, *inter alia*, consolidated market supervisory mechanisms, processes for portfolio valuation, and greater transactional security.

E. The Deposit Insurance Institute (IGD)

- 1.10 During a difficult episode triggered by the failure of two financial institutions in 1997, authorities were in large part obliged to improvise in the intervention and liquidation process. By broadening the powers of the SSF and establishing the IGD, authorities will be given the tools required to intervene effectively, liquidate assets, and when appropriate, rescue troubled banking institutions. In particular, the IGD will have the authority to assume the administration of troubled financial institutions, capitalize them, absorb losses, and take other measures. Prior to such measures, however, it will be necessary for shareholders to bear the loss of their capital and for the bank's management to be discharged. The IGD will also administer a system to protect small depositors by insuring deposits in amounts of up to 55,000 colones (US\$6,300) per individual depositor in system member banks.

F. Request for assistance and justification

- 1.11 During the course of this past year, the Bank had to supplement the MIF technical cooperation resources (ATN/MT-4471-ES) with additional resources from several sources (the Group C & D Country Action Plan, the Spanish government, the Bank's administrative budget, and the FSO). The Government of El Salvador has asked the Bank to continue providing support to the authorities in their efforts to strengthen supervision of the financial sector and has given the highest priority to this process.
- 1.12 The solvency and vitality of the financial sector are essential to the country's macroeconomic stability. The difficulties being

encountered by some of the banking institutions and the possible effects of the international financial crisis clearly call for strengthened supervisory mechanisms for the financial sector. The present operation was included in the El Salvador country paper approved by the Bank's Board of Executive Directors on June 17, 1998.

II. OBJECTIVES AND DESCRIPTION OF THE PROJECT

A. Objectives

- 2.1 The general objective of the program is to contribute to the stability and solvency of El Salvador's financial system by strengthening the supervisory agencies for the financial sector. The specific objectives are to: (i) strengthen the technical capacity of agencies responsible for supervising the financial sector; (ii) introduce modern management tools within these institutions; and (iii) build a basis for cooperation and coordination between these agencies to maximize the effectiveness of financial supervision in El Salvador.

B. Description of the program

- 2.2 The program consists of a series of components to improve the capacity of the participating agencies individually, while at the same time encouraging and facilitating coordination, cooperation, and the smooth flow of information between them.

C. Components financed by the MIF

- 2.3 (i) **Implementation of a planning and control system (US\$290,000):** In order for the superintendencies to manage their resources efficiently, management tools must be introduced to permit: (i) the establishment of objectives and goals individually and on a joint basis among the superintendencies; (ii) a sound budgetary and expense control methodology; (iii) the development of operational plans including benchmarks with which to measure and monitor progress; and (iv) effective coordination of supervisory tasks to avoid duplication. A planning and control system will be designed and introduced for this purpose. A short- and medium-range strategic planning exercise will also be conducted for each superintendency and for the oversight agencies as a group.
- 2.4 (ii) **Human resource management (US\$543,500):** Effective supervision will depend increasingly on the presence of experienced staff with the knowledge and motivation required. This makes human resource management a central aspect of the superintendencies' work. Under this component, processes will be reviewed and measures proposed to maximize efficiency in the three institutions. A coherent personnel policy will be developed for all three agencies, covering compensation schemes, sustainable training, and a reformulation of the personnel department's institutional role.
- 2.5 (iii) **Strengthening management of the technological platform (US\$360,000):** Under this component, short-, medium-, and long-term strategic investment plans will be established for each agency, permitting economies of scale in the selection, purchase, and

installation of information systems and the standardization of hardware, operational systems, and base software. The aim is to establish an efficient information system for regulatory agencies and the various types of intermediaries that will permit easy and timely interaction between the individual systems.

- 2.6 (iv) **Implementation of international accounting principles in the financial sector (US\$305,000):** The lack of clarity in El Salvador's current accounting standards has been identified as one of the greatest impediments to the effectiveness of supervision and the transparency of financial operations. Under this component, an action plan will be executed to disseminate and implement principles internationally accepted by the International Accounting Standards Committee (IASC).
- 2.7 (v) **Strengthening the Financial System Superintendency (US\$1,845,000):** Under this component, supervisory functions with respect to banks, non-bank intermediaries, and insurance will be strengthened. In the case of **bank supervision**, it will be necessary to develop regulations under the new Banking Act, including accounting standards and reporting requirements for intermediaries, portfolio classification, consolidated supervision of financial groups, related-party lending, and trust regulations. Support will also be maintained for on-site inspection teams performing comprehensive audits. Supervisory techniques will be developed for the consolidated supervision of financial groups and offshore entities and cross-border supervision of intermediaries, trusts, and others. The off-site supervisory unit will also be developed and a system of analysis will be implemented to permit diagnostic assessment of the state of the banking system and the intermediaries comprising it, including projections and early warning systems.
- 2.8 For the **supervision of non-bank intermediaries**, it will be necessary to produce regulations under the new Non-Bank Intermediaries Act, which the government has been developing with support from the World Bank. Those developed for the FEDECACES and FEDECREDITO systems must also be put in place. The proposed legislation assigns primary responsibility for the supervision of these entities to the SSF. The SSF may, however, delegate some of these functions to the appropriate second-tier entities for these intermediaries. It is therefore necessary to develop and implement sound supervision strategies and techniques permitting these intermediaries to be effectively monitored, including training for the supervisory unit for non-bank intermediaries. 2/

2/ These intermediaries are important providers of small loans (microcredit) in El Salvador.

- 2.9 The role of **insurance companies** has taken on major importance since the pension reform, and their supervision requires strengthening. The legal and regulatory framework will therefore be revised, and support will be provided to the SSF to strengthen supervision mechanisms, in particular with respect to off-site supervision, accounting standards, and reporting requirements applicable to insurance companies. Their officials will be trained in risk and reserve analysis, reinsurance, and investment.
- 2.10 To provide better **support for the Superintendent**, high-level strategic advisory assistance will be provided for a period of one week every two months throughout the life of the project. The strategic adviser will provide support to the Superintendent in executing the project while serving at the same time as a high-level technical advisor on the implementation and application of standards and the analysis of specific, highly complex cases. In cases of emergency, resources would be provided to assist the Superintendent in hiring advisers on major issues, subject to prior consultation with the IDB. To improve the process of investigating financial crime and submitting cases to the judicial branch, a financial crimes investigation unit will be created.
- 2.11 **(vi) Securities Exchange Superintendency (US\$405,000)**: The SV has made significant progress since its separation from the SSF, and has well-designed systems. However, since the Securities Market Act pre-dates the pension reform and has been substantially amended, it will be necessary to draft a new law setting out a complete, cohesive legal framework. Likewise, it will be necessary to revise or develop regulations in several major areas and to strengthen the SV's supervisory capacity, particularly with respect to: (i) accounting standards for issuers; (ii) regulation and supervision of investment funds; (iii) prospectuses for securities issues and public offerings; (iv) asset securitization; (v) classification of financial crimes; (vi) regulation of the securities market (in particular the rights and obligations of the securities exchange); and (vii) book-entry system operation and clearing houses. High-level strategic advisory assistance will be provided to the Superintendent for a period of one week every two months throughout the life of the project. In addition, there will be a diagnostic assessment of the securities exchange's trading, disclosure, clearance and settlement systems, and of CEDEVAL's custodial systems, permitting the design of a strategic plan to correct the serious problems that have been identified in these institutions.
- 2.12 **(vii) Superintendency of Pensions (US\$465,000)**: Like the SV, the SP has made significant progress since its creation. The relatively undeveloped securities market, however, poses problems for the correct valuation of member shares. The SP requires technical assistance, *inter alia*, in the following areas: (i) the development of new investment alternatives, including allowing

pension fund administrators to invest offshore; (ii) a detailed evaluation of the control of individual accounts of participants in the pension saving system; and (iii) supervision of investments. Strategic advisory assistance will also be provided (1.5 consultant-months per year).

- 2.13 **(viii) Training program for judges and commercial arbitrators (US\$230,000):** Under this component, a sustainable training program will be developed for commercial law judges to improve their capabilities in the review of disputes arising from financial operations and financial crimes. The National Council of Judges will select 30 judges and magistrates for training under a progressive program that will include a series of seminars spread over a period of two to three years. The training program will be designed and delivered by the School of Judicial Training with the assistance of a specialized consultancy. The proposal prepared by the consultant must have received the no-objection of the Bank. This component will be designed in coordination with efforts by the MIF to develop alternative dispute settlement mechanisms.
- 2.14 **(ix) Establishment of the Deposit Insurance Institute (US\$405,000):** The new Banking Act provides for the establishment of the IGD. Under this component, support will be provided to the BCR in the establishment of this agency, including the development of regulations, organizational structure, procedures and manuals, and specialized advisory services.

D. Components financed with Bank resources (US\$3,802,000)

- 2.15 **(ix) Modernization of technological resources:** Under component (iii), strengthening management of the technology platform, a short- and medium-term technology strategy and investment plan will be developed for the three superintendencies. The resources provided for this component will be used to finance that investment plan. The SP and SV have devoted considerable effort over the last two years to the purchase of hardware and software; it is therefore expected that the investment plan for these two agencies will be designed to improve the coherence and compatibility of their operating systems. The preliminary diagnostic assessment suggests that the SSF will require substantial modernization to attain levels of technological progress similar to those achieved by the other superintendencies and comparable with the banks in the system. The systems for data capture and processing and the production of reports and analytical tools are in particular need of modernization. This is especially important for the supervision of non-bank intermediaries, where progress in processing information from the numerous intermediaries is still in its early stages.

E. Cost and financing of the program

- 2.16 The program will be financed through a MIF technical cooperation operation in the amount of US\$2.9 million, supplemented by an IDB technical cooperation loan in the amount of US\$3.8 million. Under the second operation, financing will be provided to cover the costs of investment in software and hardware to be used in implementing the short-, medium-, and long-term strategic investment plans (see summary budget in Annex II).
- 2.17 Following the approach taken for other projects in El Salvador, international competitive bidding will be mandatory for the procurement of goods and services in amounts above US\$350,000, and of consulting services in amounts above US\$200,000.

F. Eligibility

- 2.18 The MIF Donors Committee declared El Salvador eligible for all forms of financing on September 17, 1998. The present program, designed to strengthen supervision of the financial sector in El Salvador, is consistent with MIF guidelines for financing under the Technical Cooperation Facility, as set forth in Article III, Section 2(d), of the Agreement Establishing the MIF, which provides for grants to governments for the advisory services required to establish or strengthen regulatory agencies. The proposal is also consistent with the recommendation to support development of the legal, regulatory, contractual, and supervisory framework.

G. Execution and disbursement period

- 2.19 The execution and disbursement periods are 42 and 48 months respectively, reckoned from the entry into force of the corresponding agreements.

III. EXECUTION OF THE PROGRAM

A. Executing agencies

- 3.1 The program will be executed through the Presidential Commission for Modernization of the Public Sector (CPMSP), attached to the Office of the President of the Republic. The CPMSP was established to facilitate and coordinate inter-agency programs for the modernization of the State, and has already gained experience in the execution of similar projects. A technical unit (UT) will be created within the CPMSP with exclusive responsibility for matters pertaining to this program. This unit will be composed of a qualified expert and a support person.
- 3.2 The financial sector, securities, and pension superintendencies, together with the Deposit Insurance Institute (once established by law) and the School for Judicial Training will be coexecuting agencies for the program. As a condition precedent to the disbursements for establishment of the Deposit Insurance Institute under component (ix), the IGD must be established by law.

B. Functions

- 3.3 The functions to be performed by the CPMSP through the UT are as follows: (i) provide technical and operational support to the coexecuting agencies; (ii) procure goods and services; (iii) prepare technical reports and operational plans with support from the coexecuting agencies; (iv) maintain the project accounts; and (v) prepare the project financial reports.
- 3.4 The current legal framework (Securities Exchange Superintendency Act) provides for the establishment of a Committee of Superintendents (CS), composed of the three Superintendents, as a forum for policy and regulatory cooperation, as well as mechanisms for coordination and joint operations. The CS will be responsible for general coordination of all program components with the exceptions of component (viii), training for commercial judges, and component (ix), establishment of the IGD. The functions of the CS are as follows: (i) approve the Operating Regulations; (ii) supervise and coordinate execution of the components; (iii) approve the selection of suppliers and service providers proposed by the coexecuting agencies (for the components concerned); (iv) approve the progress reports; and (v) serve as a forum for the settlement of disputes or differences that may arise during execution of the program.
- 3.5 With regard to the component for the training of commercial judges, the School for Judicial Training will select suppliers and service providers independently, in accordance with Bank procedures as set forth in the operating plans for this component.

- 3.6 The coexecuting agencies will be responsible for proper use of the goods and services procured with program resources, implementation of the measures included in the operating plans of operations, and the preparation and supply of information necessary for proper implementation of the program. In this connection, officials within the CPMSP, SSF, SP, SV, and ECJ will be appointed to serve as coordinators for the program. The appointment of these officials must be cleared first with the Bank and will be a condition precedent to the first disbursement.

C. Procedures

- 3.7 To manage and facilitate relations between the coexecuting agencies and the CPMSP, Operating Regulations for the program, covering the following points, must be developed: (i) the chart of accounts; (ii) procedures for the selection of suppliers and service providers; (iii) the plan for supervising execution; and (iv) the generation of information and the preparation of reports for signature by the coexecuting agencies.
- 3.8 Agreements must also be concluded between each of the coexecuting agencies and the CPMSP. These agreements will define, *inter alia*, the responsibilities of each institution for the execution of activities assigned to it under the program and the mechanisms for financial administration. Implementation of the Operating Regulations and signature of the aforementioned agreements will be conditions precedent to the first disbursement.
- 3.9 The CPMSP will prepare and present the annual operating plan one month prior to the start of the period covered, and obtain prior approval from the coexecuting agencies and a no-objection from the Bank. This operating plan must contain at a minimum: (i) an evaluation of the activities conducted during the preceding period, including a detailed account of progress achieved (relative to the benchmarks) and major difficulties encountered; (ii) the objectives to be pursued during the subsequent period (these objectives must be precisely defined and measurable); (iii) the budget for the period; and (iv) a procurement timetable (a reference guide for the preparation of operating plans is available in the program technical files). Meetings will be held with the IDB semiannually to analyze program execution.

D. Status of the preparations

- 3.10 Given the CPMSP's experience in executing similar projects, model agreements and Operating Regulations are already on hand and can be adapted to the requirements of the present program. A consultant will be hired with program resources to assist the CPMSP in this process and cooperate in preparation of the first operating plan.

E. Supervision and evaluation of the project

- 3.11 The Bank's Country Office in El Salvador will be responsible for supervision of the project, with support from the project team. The Bank's review of the disbursements will be performed ex ante during the start-up phase of the program – although the Bank may decide to use the ex post method once it has been confirmed that the execution mechanisms are functioning satisfactorily. Two years after the date of the agreement, or upon the commitment of 50% of program resources, whichever comes first, an interim evaluation will be conducted to assess the results obtained and take such measures as may be necessary to ensure the success of the program. Once the project has been completed, the Bank may also conduct an ex post evaluation.

IV. RISKS

- 4.1 Effective cooperation between the program executing agencies will be necessary if the program is to be successfully carried through. Problems with the decision-making process among the Superintendents could create serious obstacles to proper program execution. Both the Superintendents and the President of the Central Reserve Bank of El Salvador have expressed support for the program. Furthermore, the Committee of Superintendents (CS) has already been working effectively in its risk assessment capacity. Through the present program, the CS's work program will be expanded. Establishment of the Technical Unit and support from the CPMSP will also facilitate the decision process by providing operational support and technical assistance to the CS.
- 4.2 In the systems area, it is essential to avoid the excessive procurement of hardware or software that has not been planned as part of a comprehensive information systems strategy. The annual operating plans will provide the main tool for minimizing this risk, which will make the Bank's technical support particularly important.
- 4.3 Budget restrictions of one or several of the coexecuting agencies may cause delays in program execution. As mentioned earlier, this program has the full support of Salvadoran authorities. The application of some of the measures may result in substantial savings that could be used to defray the counterpart costs.

SUMMARY BUDGET Technical Cooperation Program

(in thousands of US\$)

COMPONENT	MIF	BANK	LOCAL	TOTAL
1. Implementation of a planning and control system	159.5		130.5	290.0
2. Human resource management	298.9		244.6	543.5
3. Strengthening management of the technological platform	198.0		162.0	360.0
4. Introduction of international accounting standards in the financial sector	167.8		137.3	305.0
Technical strengthening of the superintendencies:				
5. Financial System Superintendency	1,014.8		830.3	1,845.0
6. Securities Exchange Superintendency	222.8		182.3	405.0
7. Pension Superintendency	255.8		209.3	465.0
8. Training for commercial law judges	230.0			230.0
9. Establishment of the Deposit Insurance Institution	222.8		182.3	405.0
Subtotal	2,770.2		2,078.3	4,848.5
Executing Unit	192.0			192.0
Total MIF	2,962.2		2,078.3	5,040.5
%	59%		41%	100%
10. Execution of the technology investment plan		2,900.0	1,100.0	4,000.0
Executing Unit		252.0		252.0
Supervision		150.0		150.0
Contingencies		500.0		500.0
Total Bank		3,802.0	1,100.0	4,902.0
%		78%	22%	100%
TOTAL	2,962.2	3,802.0	3,178.3	9,942.5
%	30%	38%	32%	100%

EL SALVADOR (ES-0115 AND TC-98-08-27-3)

LOGICAL FRAMEWORK

DESCRIPTIVE SUMMARY	QUANTIFIABLE INDICATORS	MEANS OF VERIFICATION	MAJOR ASSUMPTIONS
creation of an efficient, dynamic supervisory system for financial intermediaries and agents in the securities market of El Salvador.	<ol style="list-style-type: none"> 1. Stability and solvency of the financial system. 2. Performance of financial intermediaries and agents participating in the securities market. 3. Efficiency and competition in financial markets. 4. Number of dynamic mechanisms for the continued strengthening and modernization of supervision. 	<ol style="list-style-type: none"> 1. Macroeconomic and financial sector statistics. 2. Sector reports and studies. 3. Report on the institutional consolidation of the superintendencies. 	<ol style="list-style-type: none"> 1. Political and macroeconomic conditions favorable to the financial system. 2. The government continues to support the consolidation process are maintained. 3. The government continues to support the policy of better supervision and transparency in the financial system. 4. The securities market, and the pension system.
efficiency of the regulatory, oversight activities performed by the authorities in El Salvador by using available methodologies and procedures.	<ol style="list-style-type: none"> 1. Uniform and consistent prudential regulations. 2. Efficient financial supervision. 3. Effective enforcement systems. 4. Extensive information disclosure systems. 	<ol style="list-style-type: none"> 1. Prudential regulations in force. 2. Inspection, analysis, and supervision procedures and manuals. 3. Reports on corrective measures. 4. Public information for individual and institutional investors and depositors in general. 	<ol style="list-style-type: none"> 1. The superintendencies maintain their commitment to ongoing institutional development and interinstitutional coordination. 2. The institutions under supervision adapt standards rapidly and cooperate in the process of developing a better system. 3. The level of funding available to supervisory agencies is maintained.
<p>Objectives</p> <p>regulatory framework for financial institutions, the securities market, and pension system.</p> <p>supervisory standards for all financial intermediaries, and in particular for securities intermediaries.</p> <p>market supervision methodologies, including the development of supervising new markets.</p>	<ol style="list-style-type: none"> 1. Methodologies, tools, procedures, and strategies for supervision and inspection permitting efficient supervision according to the type of institution concerned. 2. The adoption of international standards and supervision methodologies for the securities markets in accordance with international practices. 3. A dynamic mechanism for updating the prudential regulations and supervisory systems for financial intermediaries. 	<ol style="list-style-type: none"> 1. Technical exchanges. Regulations, procedures, inspection manuals, evaluation reports, published reports. Operational adjustments in the divisions concerned. 2. Technical exchanges. Regulations and procedures adapting international experience to new products. 3. Technical exchanges. Revised or expanded regulations and procedures. 	<ol style="list-style-type: none"> 1. Interinstitutional responsibilities defined. 2. The units involved assume responsibility and participate actively in the process. 3. Constant dialogue and effective coordination are maintained between the superintendencies.

DESCRIPTIVE SUMMARY	QUANTIFIABLE INDICATORS	MEANS OF VERIFICATION	MAJOR ASSUMPTIONS
<p>on of currently remaining "gray" in the supervisory agencies.</p> <p>control mechanisms allowing management of resources in the agencies.</p> <p>resource management based on and a continuous training</p> <p>systems support as needed for operation of the supervisory</p> <p>defined process for the legal disputes.</p>	<ol style="list-style-type: none"> 4. A coherent personnel policy within the supervisory agencies enabling them to recruit and retain top-caliber staff. 5. Implementation of the strategic training plan. 6. Efficient information systems support for supervision and oversight activities and for the operational and administrative functions of the superintendencies. 7. More rapid settlement of legal disputes involving the financial sector. 	<ol style="list-style-type: none"> 4. Position classification and career streams for all staff in the supervisory agencies. 5. Local and international training in inspection and supervision approaches and methodologies. 6. Internal and external network in operation. Development of support systems for functions performed by the superintendencies. Introduction of computerized supervision systems. Suitable hardware. 7. Average time required for the settlement of legal disputes. 	<ol style="list-style-type: none"> 4. Supervisors, inspectors, and analysts incorporate the advantages derived from better methodologies and support systems. 5. Training courses are provided where needed.

<p>at of a high-level committee to coordinate activities.</p> <p>operating plans for each of the superintendencies.</p> <p>the operating plans.</p>	<ol style="list-style-type: none"> 1. Committee of Superintendents operational. 2. Strategic and operational plans agreed upon and executed. 3. Financing of priority activities in the area for strengthening supervision and training in an amount of at least US\$5 million. 4. Financing of priority activities in the area for information systems support in an amount of at least US\$4 million. 	<ol style="list-style-type: none"> 1. Progress and final reports on the operating plans. 2. Evaluation and monitoring reports. 3. Requests for authorization of annual commitments and disbursements. 4. Monitoring mission reports. 5. Periodical evaluation and revision of the operating plans. 6. Review of strategies and reformulation of activities based on lessons learned and development of the financial system and securities market. 	<ol style="list-style-type: none"> 1. Technical exchanges with opportunities for detailed technical work. 2. Local and international consultants available. 3. Contracts concluded in accordance with established procedures. 4. The coordinating committee meets on a timely basis. 5. Computer hardware available on a timely basis. 6. International training courses available.
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PROPOSED RESOLUTION

**EL SALVADOR. NON-REIMBURSABLE TECHNICAL COOPERATION
FOR A FINANCIAL SECTOR SUPPORT PROGRAM**

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 República de El Salvador and to take such additional measures as may be pertinent for the execution of the proposal memorandum referred to in Document MIF/AT-_____ with respect to a technical cooperation project to support the Financial Sector Support Program.

2. That up to the amount of US\$2,962,200, 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.