

**PROGRAM TO STRENGTHEN THE LEGAL, REGULATORY, AND SUPERVISORY
FRAMEWORK FOR SAVINGS AND LOAN ASSOCIATIONS**

(TC-96-10-13-1)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Superintendency of Banking (SB)

OBJECTIVES: The general objective of the program is to deepen and expand financial services for the low-income population, by improving the legal, monitoring, and regulatory framework for cooperativas de ahorro y crédito [savings and loan associations] (COACs). The specific objectives are as follows: (i) modernization of the legal and regulatory framework for COACs, consistent with the Financial Institutions Act; (ii) improved COAC supervision and monitoring by the SB's Intendencia Nacional de Cooperativas [national administration of savings and loan associations] (SB/INC); and (iii) dissemination and adaptation of prudential practices and performance classification systems throughout the COAC system.

DESCRIPTION: The program includes three components. **Component I**, "Modernization of the legal and regulatory framework", will initially focus on modernizing the current legal framework for COACs and harmonizing it with that provided for in the Financial Institutions Act, enabling COACs to operate and compete under equal conditions, contributing to their stability, and protecting the interests of their members, particularly small savers. A second activity, complementary to the first, is to exchange information on leadership, negotiation, and coordination practices between the private sector (the COAC system) and the State so that changes in the legal and regulatory framework will result in an organizational and governance culture that is more effective for both parties.

Component II, "Improving supervision and monitoring by the SB/INC", will include a diagnostic of the agency's current operations and development of an appropriate system for COAC supervision and monitoring. This component will also develop and execute a plan for improving supervision and monitoring. Under the plan, general provisions (regulations designed primarily for the banking sector) will be adapted to the specific characteristics of COACs in areas such as information and analysis systems, risk and

performance classification systems, and other inspection and auditing tools used in the supervisory function.

Component III, "COAC adaptation to supervision, monitoring, and prudential practices", has been designed at two levels. The first is to advise auditing, consulting, and technical assistance firms, operating independently or within the COAC system, to provide information on, and standardize, monitoring, supervision, and prudential practices within the COAC system. The second is helping COACs adapt to new monitoring and supervision practices and prudential standards, introducing self-disciplinary practices to COACs seeking to participate more fully and effectively within the financial system.

FINANCING:	Condition:	donation
	Beneficiary:	US\$ 525,000
	MIF:	US\$ 706,000
	Total:	US\$1,231,000

EXECUTION	Execution period:	30 months
SCHEDULE:	Disbursement period:	36 months

CESI: The CESI approved this operation at its meeting of November 7, 1997, and recommended no specific actions.

RISKS: There is the risk that the SB may assign low priority to COACs, although the program provides for an increase in charges to reflect COAC regulatory costs. The operation will also help the SB define regulatory mechanisms as a function of the level of institutional development, and involve other support institutions, (such as the Federación Nacional de Cooperativas de Ahorro y Crédito [national COAC federation] (FECOAC)), which will make the regulatory process more productive. Moreover, to the extent the SB is strengthened by the current Financial Sector Technical Cooperation Program, the institutional environment for savings and loan associations will be improved as well.

SPECIAL CONTRACTUAL CONDITIONS: As a condition precedent to the first disbursement, within 60 days after signature of the agreement the SB will submit an action plan for the first six months of execution. This plan will be updated and will include the standard semiannual progress reports required under agreements with the Bank. However, to facilitate preparation of the plan, an initial

disbursement of US\$30,000 will be released to hire the program coordinator.

I. COUNTRY ELIGIBILITY

- 1.1 Ecuador was declared eligible for all MIF financing conditions by the Donor Committee at its September 7, 1994, meeting.

II. BACKGROUND

A. The savings and loan association system

- 2.1 The system of savings and loan associations (COACs) consists of approximately 350 institutions in active operation. While 130 of these COACs are open (i.e., they serve both members and the general public), the remaining 220 are closed. The system is in operation throughout the country, including rural areas with low population densities, and serves some 900,000 customers. The system's representative body is the National Federation of Savings and Loan Associations (FECOAC), with 274 member entities.
- 2.2 It is estimated that the system's total assets were approximately US\$204 million as of August 1997, with deposits of US\$111 million and capital contributions from its members of US\$41 million. Approximately 70% of the system's total assets (US\$143 million) are held by a group of 26 COACs regulated by the Superintendency of Banking (SB). This group holds deposits of US\$77 million, capital contributions of US\$28 million, and a loan portfolio approaching US\$97 million. Compared with the rest of the private financial system, these 26 COACs account for about 2% of the loan portfolio and 1.4% of deposits. On the other hand, they serve a large segment of the population, with 900,000 primarily low-income customers. In some locations they are the only institutional source of financial services available. Moreover, COACs play a key role in financing crucial sectors of the economy, such as housing and microenterprise.
- 2.3 COACs participate actively in Ecuador's micro-financial market. It is estimated that 45% of their total portfolio consists of loans of less than US\$300, and another 30% fall within the range of US\$300 to US\$900. A recent study of 11 of the most highly developed COACs indicates that over 52% of their members own and operate some type of business. In addition to microenterprise, COACs finance home purchases and improvements by their members. Another important service offered by COACs to low-income urban and rural populations are sight savings and time deposit accounts. Within the aforementioned COAC group, 75% of savings accounts maintain average balances of less than US\$150, while capital contributions are less than US\$30 per member.
- 2.4 According to statistical information from the SB, the performance of the COAC system, particularly in the context of the 1995 crisis,

was similar to, and in some cases substantially better than, the rest of the financial sector (for example, in terms of profitability and growth in nonperforming loans).

B. Current legal and regulatory framework of the COAC system

- 2.5 The legal framework of the COAC system is currently defined by two laws: the Cooperatives Act, which governs cooperatives of all kinds, and the Financial Institutions Act, which regulates open cooperatives, i.e., those engaged in public financial intermediation activities. In some areas, such as administrative structure and surplus distribution, the Financial Institutions Act has been subordinate to the Cooperatives Act. The lack of harmonization between these laws has led to inconsistent application, hindering COACs in their efforts to modernize and enter fully into Ecuador's financial system.
- 2.6 The Cooperatives Act and related regulations, issued in 1966, are marked by active State involvement in the advancement of cooperatives. It is now outdated and out of step with the strides made by COACs and with current realities in the financial market. Furthermore, the law applies to all types of cooperatives (e.g. in the transportation, and agriculture sectors), which limits its effectiveness as a guiding framework for financial cooperatives. COAC representatives are unanimous on the need to reform the law and provide specific treatment for the savings and loan association sector. The National Cooperatives Department (DNC), under the Ministry of Social Welfare, is responsible for regulating and monitoring all types of cooperatives (including the closed COACs), but lacks the funding and technical staff needed to do so effectively. Basically, the DNC has dedicated itself to processing documentation and registering new cooperatives.
- 2.7 Meanwhile, in 1985, savings and loan associations engaged in public financial intermediation activities were formally recognized by the Monetary Board as constituting private financial institutions subject to the Financial Institutions Act. That law assigns COAC supervision and monitoring to the SB.
- 2.8 According to the Financial Institutions Act, COACs engaged in public financial intermediation activities are established organized, operated, dissolved, and placed under SB jurisdiction by executive decree. Parts of this law are currently in the process of being amended, but not those relating to COAC, which will continue to be regulated by decree. This creates a regulatory gap since no such decrees have ever been approved, leaving COACs under SB jurisdiction to operate without formal regulation. The SB has now prepared a draft regulatory decree, but the basic technical work to support the new regulations must still be done.
- 2.9 The general failure to update the legal framework for COACs (closed as well as open), and provide for their establishment,

organization, operation, and dissolution, as well as solvency and financial prudence standards, has left the COAC system without effective State supervision. ^{1/} This places the deposits of thousands of low-income savers at risk, including in areas where COACs are the only source of financial services, undermining public trust and threatening the stability of the entire COAC system.

- 2.10 Despite several attempts to solve these problems in recent years, the COAC system has shown little capacity for preparing sound regulatory proposals or handling complex negotiations, which limits its ability to achieve policy changes. As there is no effective process enabling private sector COACs to interact with the State to develop and negotiate legal and/or regulatory proposals, relations between the two have been difficult.

C. Supervision and monitoring

- 2.11 Within the Superintendency of Banking, the National Cooperatives Administration (SB/INC) has responsibility for financial supervision and monitoring. The SB/INC is divided into an Auditing and Analysis Department and a Legal Advisory and Processing Department. SB/INC staff are not provided any systems for risk analysis and evaluation, classification, or inspection and auditing for application to the COAC sector. The rules and regulations followed are essentially those set up for the banking sector. The lack of adequate procedures and the failure to adapt general SB decisions to the COAC system, and to develop technical parameters for purposes of regulation, limits the effectiveness and efficiency of the INC's supervision and monitoring activities.
- 2.12 Currently, the SB's COAC supervision and monitoring activities are limited to open COACs with assets of US\$600,000 or more. Since 1995, when emergency regulations suspended the authorization of new financial intermediaries, the SB has not expanded its institutional portfolio of 26 regulated COACs, even though 56 entities now exceed

^{1/} For example, the Cooperatives Act states that the surpluses of cooperatives must be distributed, while the Financial Institutions Act does not regulate the distribution of profits. Consequently, current COAC supervision and monitoring by the Superintendency of Banking is subject to an out-of-date Cooperatives Act, which limits the scope of its recommendations relating to prudential practices. Another aspect of the Cooperatives Act affecting the COACs is the requirement of supervisory committees. The committee members have limited technical knowledge, impede the work of COAC accounting staff, and often interfere with management. In exercising its responsibility for decreeing internal controls, the SB can only make limited recommendations to COACs, which are subject to the Cooperatives Act. This effectively blocks the structural changes needed for COACs to operate soundly and competitively in the micro-financial market.

the specified level of assets. Cooperatives pay a semiannual charge of 0.2 per mil of average assets, which is not sufficient to cover the cost of regulating them (banks pay 0.6 per mil). During the analysis of this operation, surveys revealed that COACs are willing to pay more for appropriate supervision and monitoring given the advantages of inclusion in the formal financial system.

D. Other initiatives in support of the COAC system

- 2.13 COACs are receiving international support, primarily in the area of technical assistance for institutional strengthening. A USAID project is contributing to the institutional and financial strengthening of open COACs with large operating volumes, through a technical assistance effort by the World Council of Credit Unions. Another technical assistance project, financed by the German government through the German Federation of Savings and Loan Associations, is helping COAC system advisory firms 2/ offer their services (e.g., auditing, information systems) to COACs at various levels of development.
- 2.14 Although neither of these projects focuses on the regulatory area, both have contributed to the system's improved self-discipline. The proposed program would be complemented with these efforts to strengthen the COAC system, allowing it access to a range of protection mechanisms, such as deposit insurance and access to liquidity at critical times. The COAC system advisory firms, the international support project managers, and the SB/INC took part in the working group formed during design of the proposed program.

E. Relationship with the Financial Sector Program

- 2.15 In October 1994 the Bank approved a Financial Sector Program (833/OC-EC) that also included reimbursable technical cooperation of US\$10 million. Approximately US\$3 million of this amount is being used to strengthen financial system supervision and the SB's structure and operations, and to improve prudential banking regulation. Also as part of this program, certain changes are being made to the Financial Institutions Act, but COAC system regulation would continue to be defined by decree.
- 2.16 The technical assistance provided to the SB and the legal changes implemented through the sectoral program are helping to create a more appropriate environment for executing this operation, which occupies a very specialized "niche", within the process of

2/ The system has a cooperative business consulting company (CONSULCOOP), an information systems company (SYSTECCOOP), an auditing company (AUDICOOP), and a cooperative studies and development company (CEDECOOP). These companies are affiliated with the National Federation of COAC (FECOAC), but their legal and operating structures are independent.

financial sector modernization. It should therefore be kept clear that efforts to bolster the COAC system through institutional reorganization and strengthening, and to correct SB problems specifically related to COAC supervision and prudential regulation are not covered under the sectoral loan.

III. THE PROGRAM

A. Objectives

- 3.1 The general objective of the program is to deepen and expand financial services for the low-income population, by improving the legal, monitoring, and regulatory framework for cooperativas de ahorro y crédito [savings and loan associations] (COACs). The specific objectives are as follows: (i) modernization of the legal and regulatory framework for COACs, consistent with the Financial Institutions Act; (ii) improved COAC supervision and monitoring by the SB's Intendencia Nacional de Cooperativas [national administration of savings and loan associations] (SB/INC); and (iii) dissemination and adaptation of prudential practices and performance classification systems throughout the COAC system.

B. Description

- 3.2 In order to achieve the objectives described above, the program will consist of three components: (i) modernization of the legal and regulatory framework; (ii) improving SB/INC supervision and monitoring; and (iii) COAC adaptation to supervision, monitoring, and prudential practices.

1. Modernization of the legal and regulatory framework

- 3.3 The purpose of this component is to modernize the legal and regulatory framework for savings and loan associations and to harmonize it with that provided for in the Financial Institutions Act. Efforts will be made to improve interaction between the private sector (the COAC system) and the State so that communication, negotiation, and cooperation on legislative and regulatory matters will contribute to a new framework for governance.

- 3.4 **Development of the legal and regulatory framework.** These activities will focus on two areas: (i) drafting regulations on COACs under the Financial Institutions Act; and (ii) drafting a new Cooperatives Act consistent with financial system legislation. The program will start with an analysis of the current legal and regulatory framework, including a review of existing COAC-related proposals concerning the Cooperatives Act dating back to 1966, as well as COAC regulatory initiatives under the Financial

Institutions Act. Following review of the legal framework, potential proposals will be prepared to reformulate the COAC legal and regulatory framework. From these proposals, institutions concerned with the COAC sector, including regulatory agencies and support providers, will select a model legal framework to be agreed to by the COAC system and the regulatory agencies (SB/INC and MBS/DNC), for submission to the legislative branch.

- 3.5 Work on the new legal and regulatory framework will focus on: (i) resolving the distinction between "open" and "closed" cooperatives and defining those engaged in "financial intermediation;" (ii) defining institutional categories according to total assets, with the low point based on the minimum level for COACs to be viable in the market, while at the same time allowing them to provide a wider range of financial services as a function of greater capital requirements (thus "leveling the playing field" for COACs within the financial sector); (iii) defining appropriate monitoring and supervision systems for each of the categories mentioned above, taking into consideration the need to use interaction mechanisms such as the FECOAC; (iv) establishing prudential regulations appropriate for the COAC system, which reflect differences relating to asset structure, asset quality standards, and average volume; and (v) establishing a fee system for the SB that covers the cost of regulating COACs.
- 3.6 **New practices for negotiations and coordination between the COAC system and the State.** In parallel with the above activity, a consulting firm with broad public affairs experience will be hired to help develop and institute a new legal and regulatory framework for the sector. A pilot negotiation plan will be designed for this purpose starting at the individual COAC level and working upward towards higher levels of representation (e.g., associations, federation).
- 3.7 The aim of this activity is to transfer communication tools and methodologies, as well as leadership practices, to COAC boards of directors, managers, and members, enabling them to effectively negotiate and coordinate with the State. The firm hired will also be expected to provide support for COACs in facilitating progress toward the new regulatory framework.

2. Improvement in the SB/INC's supervision and monitoring

- 3.8 This component seeks to improve the SB/INC's efficiency and effectiveness in supervising and monitoring COACs. The work will focus on the SB/INC, the agency responsible for supervising COACs engaged in public financial activities, which have the sector's highest levels of assets, deposits, outstanding loans, and membership. The component includes two major activities: an initial diagnostic of the SB/INC and development of a plan for improvement, as described below.

- 3.9 **Diagnostic.** The SB/INC's current supervision and monitoring practices will be analyzed with a view to identifying more efficient and effective alternatives. From these alternatives, a supervision and monitoring structure and improvement plan will be selected and designed.
- 3.10 **Plan for improving monitoring and supervision.** This plan consists of the following complementary activities:
- a. **Monitoring and regulatory tools.** Given that SB decisions now focus primarily on banking institutions, this activity will help to adapt them to the COAC system in such areas as solvency and prudential standards and rating systems (e.g. CAMEL, MACRRO, PERLAS, etc.). It will also support the preparation of procedures manuals (for example, analysis, monitoring, inspection, etc.) appropriate for COACs.
 - b. **Internal training.** An internal training plan designed by the SB/INC will be developed to train staff in Quito and in the Guayaquil and Cuenca regional offices on tools developed for the COAC system, including the following: effective and efficient regulatory practices; asset risk classification; the application of rating systems; inspection and supervision systems; and systems audits.
 - c. **Outside training.** SB staff will receive outside training on COAC systems supervision and monitoring in other countries through exchanges of experience at two levels: (i) advanced systems used by savings and loans in Spain, Canada, the United States, and Japan; and (ii) systems being developed in such countries as Colombia, Bolivia, Peru and Costa Rica that are currently in the process of strengthening their own supervision and monitoring systems. This training, which will be led and organized by the program coordinator, will give participants a better view of the international potential for financial cooperatives. It will also permit dialogue on common problems shared by regulatory agencies in providing the most appropriate supervision and monitoring system for COACs and other active micro-finance institutions, and on experiences and practices that have promoted healthy development, competition, and supply of financial services, particularly to low-income sectors.
 - d. **Dissemination and standardization.** This activity is intended to disseminate changes developed within the legal/regulatory framework and in SB/INC practices, both internally (i.e., to other SB units) and externally (to outside and internal auditors; technical staff in the COAC support institutions; COAC managers, treasurers, accountants, internal auditors, and boards of directors; and private consulting firms). The SB will organize 10 dissemination and standardization workshops for this purpose.

e. **Adaptation and personalization of SB software.** In order to develop an information system capable of providing for its monitoring and regulatory activities, the complementary aspects of the information services development plan currently being implemented by the Superintendency of Banking as part of the technical cooperation under the Bank's Financial Sector Program (833/OC-EC) will be supported in areas relevant to the INC, since it is expected that it will be necessary to adapt the software to the COAC system according to the technical parameters deriving from the new regulatory framework. To this end, program resources will be assigned to analyzing application of the software, data validation, processing, the design of reports in accordance with classification systems and other aspects relating to the new supervision and monitoring practices to be applied to the COAC. This activity will be carried out once the SB has completed the equipment acquisition stage provided for in loan 833/OC-EC, and the application and implementation stage has been initiated. There will consequently be close coordination with the National Systems Administration, which is responsible for the SB's information services.

3. **COAC adaptation to supervision, monitoring, and prudential practices**

- 3.11 The technical assistance provided to the SB under the preceding component will also seek to benefit institutions providing services to the sector in relation to the new monitoring, supervision and prudential practices. COACs will also be assisted in adapting to the new practices and standards, whether applied by the SB, by another regulatory agency, or by the COAC system itself (self-discipline).
- 3.12 **Transfer, standardization, and dissemination of new prudential practices.** Under this sub-component, support will be provided for 10 technical workshops in selected priority areas with participation at the appropriate levels. The workshops will be specifically designed to transfer new supervision, monitoring, and prudential practices to outside auditing firms and support consulting firms with a view to disseminating and standardizing these practices throughout the COAC system, improving self-discipline, and strengthening the system financially.
- 3.13 **COAC adaptation to the new monitoring, supervisory and prudential practices.** Ten technical workshops will be held to help the COACs adapt to and comply with key areas of the monitoring, supervisory, and prudential system. The participating COACs may include those already under SB supervision, those about to be, and even those seeking to strengthen self-discipline - in the case of small cooperatives interested in entering the formal financial system. COACs may therefore decide themselves to adopt and operate under

self-disciplinary financial solvency and rating systems in accordance with duly analyzed guidelines appropriate for the COAC system in Ecuador.

C. Execution

- 3.14 The program is intended primarily improve the COAC legal and regulatory framework, and harmonize it with the guidelines of the Financial Institutions Act, which is enforced by the SB. Since SB/INC will be the primary recipient of technical support, it was decided that the SB will act as lead executing agency for the program.
- 3.15 Consideration has been given to hiring a Technical Adviser, to work with SB/INC on general project coordination. The adviser would be responsible for coordinating the project with technical cooperation from the Financial Sector Program (activities matrix and plan of operations) in the relevant areas. He would also provide ongoing technical assistance to SB/INC for execution of the program.
- 3.16 For the specialized activities described in the preceding section, short-term consultants will be hired, and paid upon delivery of the "products" specifically requested under each consultancy.
- 3.17 Program duration is estimated at 30 months with a 36-month disbursement period. Based on the analysis carried out during the preparation phase, project execution should be relatively quick, given that there is already a significant level of consensus among the various parties involved as to the need for reforming the regulatory framework. Similarly, by contrast with other countries in the region, the point of departure for this project is relatively solid, given that COACs, by law, fall under SB supervision.

D. Program costs and financing

- 3.18 As set forth below, the total cost of the program is US\$1,231,000, including the MIF financing of US\$706,000 and local counterpart funding of US\$525,000. The local counterpart funds are the responsibility of the SB, although it should be noted that these funds will include a contribution of approximately US\$200,000 from the COAC system and the COAC support firms.

Budget (US\$)			
Activities	MIF	Local counterpart	Total
General technical advising/coordination	200,250	71,000	271,250
Component I: Legal and regulatory framework	139,400	15,500	154,900
Component II: Supervision and monitoring	241,850	241,500	483,350
Component III: COAC adaptation to new prudential standards	64,500	197,000	261,500
Contingencies	30,000		30,000
Program evaluation	30,000		30,000
TOTAL	706,000	525,000	1,231,000

3.19 The following table shows the program budget, according to the Bank's accounting categories.

Item	MIF	Local counterpart	Total
1. Consulting firm	106,000		106,000
2. Individual consultants			
2.1 Individual consultants	335,500	31,500	367,000
2.2 Hiring, etc.	10,000		10,000
2.3 Travel and per diems	119,500	17,500	137,000
3. Training	45,000	387,000	432,000
6. General support			
6.1 Office supplies		24,000	24,000
6.3 Equipment		5,000	5,000
6.7 Communications	30,000	40,000	70,000
7. Publications		20,000	20,000
8. Evaluation	30,000		30,000
98. Contingencies	30,000		30,000
TOTAL	706,000	525,000	1,231,000

E. Supervision and evaluation

- 3.20 Since the project is closely related to the financial sector operation, and to ensure proper supervision and coordination of the two programs, COF/CEC will assign the same professionals to supervise both activities.
- 3.21 RE3/OD5 will hire consultants (charged to this operation) to undertake two exhaustive performance evaluations ("tranching") to allow for any operational or budgetary adjustments found necessary. The first will be carried out 12 months after execution and the second 24 months afterwards, to measure fulfillment of the established objectives and make the adjustments needed for proper execution.

F. Special contractual conditions

- 3.22 As a condition precedent to the first disbursement, within 60 days after signature of the agreement the SB will submit an action plan for the first six months of execution. This plan will be updated and will include the standard semiannual progress reports required under agreements with the Bank. However, to facilitate preparation of the plan, an initial disbursement of US\$30,000 will be released to hire the program coordinator.

IV. BENEFITS AND RISKS

- 4.1 The program will contribute to proper integration of COACs into Ecuador's financial system, helping COACs to compete under equal conditions with financial institutions, and giving them opportunities to expand their financial services to low-income communities. COACs already serve many micro- and small businesses who would thus benefit from technical and financial programs accessible to SB supervised entities. COACs have also traditionally played an important role in financing housing for low-income sectors, and a more appropriate regulatory and prudential framework should allow them to do so more actively.
- 4.2 There is the risk that the SB may assign low priority to COACs, although the program provides for an increase in charges to reflect COAC regulatory costs. The operation will also help the SB define regulatory mechanisms as a function of the level of institutional development, and involve other support institutions, (such as the Federación Nacional de Cooperativas de Ahorro y Crédito [national COAC federation] (FECOAC)), which will make the regulatory process more productive. Moreover, to the extent the SB is strengthened by the current Financial Sector Technical Cooperation Program, the institutional environment for savings and loan associations will be improved as well.

- 4.3 Another risk is that the project will be initiated during a presidential election period, creating a less propitious legislative environment for amending the Cooperatives Act. Nonetheless, the technical side of the project can proceed and legislative alternatives can be developed. Progress can also be made in drafting COAC regulatory provisions under the Financial Intermediation Act, which will be processed along with other regulations supported by the Financial Sector Program.

V. FULFILLMENT OF THE PROGRAM ELIGIBILITY CRITERIA

A. General program eligibility criteria

- 5.1 The proposed plan is fully consistent with the general objective of the MIF, which is to promote private investment and expand private sector participation, thereby promoting growth and socioeconomic development. The program is innovative from a conceptual standpoint, seeking to incorporate COACs into the financial sector by enhancing their financial soundness and ability to serve low-income sectors.

B. Facility criteria for program eligibility

- 5.2 The proposed operation is consistent with the MIF financing criteria stipulated for Facility I, Article 3, Section 2 of the agreement establishing the MIF. This agreement stipulated, among other criteria, that financing will be granted to governments to cover the advisory services needed for the implementation of reform plans to promote private sector initiative and participation. In this regard, the donated funds will strengthen the legal, regulatory and monitoring framework of the COAC system, thereby improving the system's stability and solvency with a view to increasing financial intermediation to the benefit of private sector development.

VI. CONSISTENCY WITH THE BANK'S COUNTRY STRATEGY

- 6.1 The proposed activity is consistent with the objectives of the Bank's operating strategy for Ecuador, which seeks, inter alia, to consolidate macroeconomic stability and revive sustained economic growth with a view to raising incomes and alleviating poverty. The project will improve access to financial services for low-income segments of the population, enable small businesses and microenterprises to participate more actively in the economy, and allow COACs to expand their residential financing activities.

- 6.2 The fact that a large majority of COACs are not subject to SB supervision has limited their access to refinancing facilities when required. This factor also makes them ineligible for the Bank's Global Micro-Enterprise Program (851/SF-EC) and its technical assistance program for the transfer of lending technology. Finally, as indicated in paragraphs 2.15 and 2.16, the proposed activity would complement the Bank's work under sectoral loan 833/OC-EC.

MIF — ECUADOR TECHNICAL COOPERATION FACILITY. IMPROVEMENT IN THE LEGAL, REGULATORY, AND SUPERVISORY FRAMEWORK FOR SAVINGS AND LOAN ASSOCIATIONS		
General Objective: To deepen and expand financial services to the low-income population by improving the legal, monitoring and supervisory framework of the savings and loan association (COAC) system.		
Components	Activities	Expected results (*)
Component I: Modernization of the legal and regulatory framework	<ol style="list-style-type: none"> 1. Development of the legal and regulatory framework 2. Development of a system for negotiation and cooperation between the private sector — the COAC system — and the State 	<p>Proposed legal and regulatory framework consistent with the Financial Institutions Act completed after four months.</p> <p>Draft reform bill submitted to the relevant State institutions (e.g., President, Congress) after 12 months.</p> <p>Pilot project executed after 24 months.</p>
Component II: Improved oversight and monitoring by SB/INC	<ol style="list-style-type: none"> 1. Diagnostic of the current monitoring and oversight system. 2. Development of an oversight and monitoring improvement plan, consisting of the following: <ol style="list-style-type: none"> (1) Adaptation of monitoring and oversight tools; (2) Internal training plan; (3) External training plan; (4) Dissemination and standardization of new oversight, monitoring, and prudential practices; (5) Adaptation and personalization of the software. 	<p>Diagnostic with recommendations for implementation, completed after 4 months.</p> <p>Adoption of an efficient and effective oversight and monitoring improvement plan after 18 months.</p>
Component III: COAC adaptation to oversight, monitoring, and prudential practices	<ol style="list-style-type: none"> 1. Dissemination, update, and standardization of oversight, monitoring, and prudential practices to professionals, private firms (e.g., outside auditors, consultants), and COAC support institutions focusing on the system's self-discipline. 2. Training oriented toward adapting the COAC system with a focus on self-discipline. 	<p>Practices updated, disseminated and standardized after 24 months.</p>

(*) Deadlines counted from the starting date of program execution.

PROPOSED RESOLUTION

ECUADOR. NON-REIMBURSABLE TECHNICAL COOPERATION. SAVINGS AND LOANS CREDIT UNION'S SYSTEM LEGAL, REGULATORY, AND SUPERVISORY FRAMEWORK STRENGTHENING 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, on behalf of Multilateral Investment Fund, to enter into such agreements as may be necessary with the Superintence of Banking of Ecuador and to adopt such other measures as may be pertinent for the execution of the plan of operations referred to in Document MIF/AT- _____, with respect to a technical cooperation in support of a Savings and Loans Credit Union's System Legal, Regulatory, and Supervisory Framework Strengthening Program.

2. That up to the amount of US\$706,000 is authorized for the purpose of this resolution, chargeable to the Technical Cooperation Facility of the Multilateral Investment Fund.

3. That the above mentioned sum is to be provided on a non-reimbursable basis.