

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

EL SALVADOR

**CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) TO
FACILITATE ACCESS TO BUSINESS AND HOUSING LOANS
(ES-O0009)**

**FIRST PROGRAM OF ACCESS TO LENDING FOR THE RECOVERY OF MICRO,
SMALL, AND MEDIUM-SIZED ENTERPRISES (MSMEs)**

(ES-L1138)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Omar Villacorta (IFD/CMF), Project Team Leader; Christian Schneider (IFD/CMF), Alternate Project Team Leader; Maria Netto; María Cabrera; Isabelle Braly; Gabriela Andrade; Francisco Demichelis; Javier Gavinales; Carmen Fernandez; Claudia Marquez; Juan Martínez; Manuel Fernandini; Diego Herrera and Ana Lucía Lozano (IFD/CMF); Juan Carlos Lazo and Gumersindo Velazquez (VPC/FMP); Cristina Landazuri (LEG/SGO); Oscar Mitnik (SPD/SDV); Gianleo Frisari and Omar Samayoa (CSD/CCS); Nidia Hidalgo (SCL/GDI); Ophelie Chevalier (CSD/HUD); Juan José Barrios, Gabriela Molina, and Ana María Padilla (CID/CES); and Ernesto Cuestas (INO/FLI).

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ABBREVIATIONS

BANDESAL	Banco de Desarrollo de la República de El Salvador
BCR	Central Reserve Bank of El Salvador
CCLIP	Conditional Credit Line for Investment Projects
COVID-19	Coronavirus disease 2019
FSV	Fondo Social para la Vivienda [Low-income Housing Fund]
MSE	Micro and small enterprise
MSME	Micro, small, and medium-sized enterprise
SIG	Sistema de Información Gerencial [BANDESAL's Management Information System]
SME	Small and medium-sized enterprise
SSF	Superintendencia del Sistema Financiero [Office of the Superintendent of the Financial System]

PROJECT SUMMARY

EL SALVADOR CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) TO FACILITATE ACCESS TO BUSINESS AND HOUSING LOANS (ES-O0009)

FIRST PROGRAM OF ACCESS TO LENDING FOR THE RECOVERY OF MICRO, SMALL, AND MEDIUM-SIZED ENTERPRISES (MSMEs) (ES-L1138)

Financial Terms and Conditions					
Borrower:				Flexible Financing Facility ^(a)	
Banco de Desarrollo de la República de El Salvador (BANDESAL)				Amortization period:	25 years
Guarantor:				Disbursement period:	4 years
Republic of El Salvador				Grace period:	5.5 years ^(b)
Executing agency:				Interest rate:	LIBOR-based
BANDESAL				Credit fee:	(c)
Liaison agency:				Inspection and supervision fee:	(c)
Ministry of Commerce and Investment					
Source	CCLIP (US\$)	First operation	%	Weighted average life:	15.25 years
IDB (Ordinary Capital)	400,000,000	200,000,000	100	Currency of approval:	U.S. dollars
Total	400,000,000	200,000,000	100		
Project at a Glance					
Objective of the CCLIP: The objective of the Conditional Credit Line for Investment Projects (CCLIP) is to promote productive activities and social welfare in El Salvador by providing access to credit in the business and housing sectors.					
Objective of the first individual operation under the CCLIP: The general objective of the first operation under the CCLIP is to support the sustainability of micro, small, and medium-sized enterprises (MSMEs) in El Salvador by financing second-tier lending for BANDESAL. The specific objective is to foster the economic recovery of Salvadoran MSMEs by providing them access to productive credit for working capital and fixed-asset investments.					
Special contractual conditions precedent to the first disbursement of the loan proceeds: A special contractual condition precedent to the first disbursement of the proposed program resources is the approval by BANDESAL of the Credit Regulations for this operation, with the Bank's prior no objection (paragraph 3.6).					
Exceptions to Bank policies: A partial waiver of the Policy on Guarantees Required from the Borrower (Operational Policy OP-303) is requested from the Board of Executive Directors, so the Republic of El Salvador will only guarantee the monetary obligations of the loan contract between the Bank and BANDESAL (paragraph 3.7).					
Strategic Alignment					
Challenges: ^(d)		SI <input checked="" type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>	
Crosscutting themes: ^(e)		GD <input checked="" type="checkbox"/>	CC <input checked="" type="checkbox"/>	IC <input type="checkbox"/>	

^(a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity conversions. The Bank will take market conditions as well as operational and risk management considerations into account when reviewing such requests.

^(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

^(c) The credit fee and the inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problems addressed, and rationale

- 1.1 **Macroeconomic context.** El Salvador has the fourth-largest economy in Central America, which is dollarized, outward looking, and vulnerable to external shocks and natural disasters. In 2019, the country's GDP grew 2.38%.¹ Initial growth estimates for 2020 were between 2.3% and 2.7%.² The low growth of the past two decades has mainly been attributed to lower contributions in terms of both capital and total factor productivity.³ The outbreak of COVID-19, the disease caused by the 2019 novel coronavirus, drastically changed El Salvador's outlook in March 2020.⁴ External shocks coupled with the interruption of all the country's nonessential activities⁵ are expected to have a serious, although temporary, impact on the economy. An economic contraction between 5.4% and 6.7% has been projected for 2020. Increased spending and reduced tax revenue caused by a slowdown in economic activity are expected to generate a deficit of 8.7% of GDP. However, this could be higher, depending on what is needed to implement the government's economic and fiscal plan to address the emergency and begin the economic recovery process.⁶
- 1.2 **Financial system overview.** The first tier of the financial system includes 25 financial institutions: 12 commercial banks, 6 cooperative banks, 1 federation of cooperative banks, 4 savings and loan associations, and 2 State-owned banks: Banco Hipotecario and Banco de Fomento Agropecuario. Banks hold 90% of the system's assets; five of these banks account for 80% of the lending market. Growth in the system is mainly driven by lending to the consumer, services, and construction sectors. Until late 2019, financial institutions performed well with respect to portfolio quality, reserve coverage, and equity ratio indicators. These institutions also had stable deposits and high liquidity, as well as a positive trend for return indicators ([optional link 2](#)). The COVID-19 crisis poses challenges for financial institutions, particularly smaller ones, such as the loss of profitability, higher risk of default, potential for deposit withdrawals, and difficulties obtaining access to finance due to a lack of liquidity in markets.⁷

¹ More information on the country's economic indicators and regional comparisons is available from the [World Economic Outlook](#) and the [Central American Monetary Council](#).

² Official data from the [Central Reserve Bank of El Salvador \(BCR\)](#).

³ Barrios, J.J. et al. (2019): Impulsando el Crecimiento Inclusivo y Sostenible.

⁴ On 11 March 2020, the COVID-19 outbreak was declared a pandemic. As of the end of May 2020, there were 5.9 million confirmed infections and 366,000 deaths around the globe. As of that date, El Salvador had 2,395 confirmed infections and 44 deaths.

⁵ On 14 March 2020, the Legislative Assembly approved [Decree 593](#), declaring a national state of emergency due to the COVID-19 pandemic. The decree includes several prevention, containment, and response measures such as limiting or restricting the movement of people.

⁶ The plan's economic and fiscal measures were published on the [Ministry of Finance's website](#).

⁷ Based on [Decree 593](#), on 20 March 2020 the Regulatory Committee of the BCR approved [temporary technical rules](#) to: (i) address defaults and contractual obligations; (ii) provide loans; and (iii) modify the pension system.

Table 1. Indicators as of December 2019 for financial institutions receiving deposits

	Banks	Cooperative Banks	Savings and Loan Associations
Number	14	4	6
Assets (US\$ millions)	19,358.48	1,666.88	385.35
Loans (US\$ millions)	12,863.50	1,162.79	277.36
Deposits (US\$ millions)	13,679.27	759.01	249.79
Net profits (US\$ millions)	195.7	27.76	6.36
Equity ratio (%)	15.52	18.96	17.47*
Net liquidity ratio (%)	35.86	31.42	35.76*
Return on equity (%)	8.83	10.31	7.06*
Return on assets (%)	1.01	1.6	1.10*
Maturity index (%)	1.76	1.21	3.98*
Reserve coverage (%)	128.51	118.44	109.50*

*Simple median for the subsector's financial institutions.

Source: Prepared by the authors based on data from the Office of the Superintendent of the Financial System (SSF).

- 1.3 Evolution of system lending.** In late 2019, the system's lending products totaled US\$14,303,650,000. Based on their use, 47% were for business, 18% for housing, and 35% for consumers. Business lending focuses on commerce (28%), manufacturing (21%), and services (15%), while most mortgage loans are for new and used home purchases (90%). While growth in the total loan balance shows a positive trend for the past decade, there are signs that during the same time period, business and housing loans decreased. The totals fell from 193,000 business loans and 89,000 mortgage loans in December 2009 to 123,000 business loans and 62,000 mortgage loans in December 2019—which accounts for a joint loss of 97,000 loans for both sectors.⁸
- 1.4 Sector diagnostic assessments for business and housing loans.** Based on 2016 local estimates,⁹ only 12% of adults in the country have access to credit. This amount is consistent with 2017 international estimates,¹⁰ which indicate a level of access to credit of 11% among adults, well below the 20.8% average for Latin American and Caribbean countries. The information available confirms that loans are prioritized for the business and housing sectors. In the business sector, 35% of adults use loans to expand or launch a business or to purchase raw materials, machinery, and equipment. In housing, 24% of adults use the money borrowed to purchase, remodel, or expand a home, purchase land, and more.¹¹ Below is a deeper analysis of the issues related to business and housing credit, which emphasizes smaller companies and low-income individuals and households, respectively.

⁸ All data and calculations are from the Information Clearinghouse.

⁹ BCR (2016). Encuesta Nacional de Acceso a Servicios Financieros.

¹⁰ World Bank's [Global Financial Index](#).

¹¹ Op. cit. BCR (2016).

- a. **Business loans:** The financial system's function is to channel credit to businesses, enabling them to perform their activities more productively.¹² However, regardless of their size, economic sector, or geographic area of operations, companies in El Salvador have suboptimal access to credit.¹³ In 2016, estimates showed that only 40.2% of businesses had a bank loan or line of credit—compared to 47.7% for Latin America and the Caribbean—and that 20.7% identified access to lending as the main element impacting their development.¹⁴
- b. Micro, small, and medium-sized enterprises (MSMEs)^{15,16} comprise the segment with the highest barriers to access, however, despite their significance and contributions to the economy.¹⁷ Although the data available with respect to demand from MSMEs varies, it confirms that: (i) 99% of Salvadoran microenterprises, especially those dedicated to commerce, frequently obtain informal credit under usurious financial terms;¹⁸ (ii) only 68,000 of 317,700 microenterprises and small businesses (MSEs) in the country obtain credit, and only 31,000 receive it from financial institutions that are part of the regulated financial system;¹⁹ (iii) only 29% of MSMEs have lines of credit or loans;²⁰ and (iv) 18% of MSMEs consider that obtaining access to credit is difficult and 36% consider it very difficult.²¹

Table 2. Loan indicators by company size

	Balance (US\$ millones)		Number of loans		Average amount (US\$ thousands)		Weighted effective rate (%)		Maturity index (%)	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
Large	3,197	3,354	8,280	8,208	529	558.8	7.1	7.1	0.8	0.6
Medium	1,374	1,557	14,662	13,850	129.1	151.8	8.9	8.6	1.3	1
Small	1,184	1,175	24,148	23,927	65.2	66.5	10.8	10.9	1.8	2.6
Micro	306	312	45,744	44,194	8.9	9.5	16.6	16.8	3.3	4

Source: Prepared by the authors based on SSF data.

¹² While in El Salvador there is no evidence of a relationship between lending and productivity, international studies demonstrate causality between the development of the financial system and economic growth (Rajan and Zingales, 1998; Beck et al., 2000), mainly through the effect on productivity (IDB, 2010; Arizala et al., 2013).

¹³ International Labour Organization (2019). Encuesta Empresarial de El Salvador.

¹⁴ World Bank's [Enterprise Surveys](#).

¹⁵ The Act to Promote, Protect, and Develop Micro and Small Enterprises and documents from the Ministry of Economy establish company classification by size, as shown in [optional link 3](#).

¹⁶ Abbreviations in this document, in addition to MSME, were used to identify other groups, "micro and small enterprises" (MSEs) and "small and medium-sized enterprises" (SMEs). These are based on the groupings used in the information sources that were consulted.

¹⁷ The latest Economic Census in 2005 estimated that MSMEs accounted for 99.5% of companies, employed 65.5% of the workforce, and provided 42.7% of the value added.

¹⁸ Salvadoran Bank Association (2019). El Crédito en el Sector Informal.

¹⁹ BCR (2017). Encuesta Nacional de la MYPE 2017.

²⁰ BCR (2019). Encuesta Nacional de Acceso al Financiamiento de las MIPYME.

²¹ Ibid.

- c. On the supply side, data from the Office of the Superintendent of the Financial System (SSF) as of December 2019 showed that 82,000 loans to MSMEs account for only 4% of the 2 million loans provided throughout the system. This demonstrates the incipient penetration rate in terms of number of loans. In addition, the US\$3 billion borrowed by MSMEs accounted for 21% of the system's total loan balance. Loan indicators for MSMEs showed inverse relationships between average amounts and interest rates, given that a smaller loan entails higher operating costs and risk, and therefore requires a higher return. Estimates of the size of the MSME financing gap range from US\$514 million to US\$882 million ([optional link 4](#)).
- d. An estimated 64% of microenterprises and 26% of MSEs in the country are owned or run by women. No adequate data is available on access to credit by these enterprises, which hinders a diagnostic assessment or a calculation of the gender funding gap.²² However, data from available surveys show significant signs of inequality: (i) only 4% of women indicate that they have obtained a loan to start, operate, or expand a business, compared to 7% of men;²³ (ii) the rejection rate for women who apply for loans is 3.5% compared to 0.8% for men;²⁴ and, lastly, (iii) only 15.6% of enterprises run by women finance their investment with bank loans, compared to 27.3% of businesses run by men, showing much larger differences than for regional average of 33.3% and 39.3%, respectively.²⁵
- e. **Housing loans:** El Salvador's average population density is 200 people per square kilometer; 48% of the population lives in 3 of its 14 departments. Estimates show that 41% of the population lives in high-risk areas.²⁶ The main deficit in the sector is of a qualitative nature (438,165 housing units). This impacts approximately half of the country's households, mainly rural households (65%) and households in the poorest quintile (67%).²⁷ Given the challenging context of urban development and housing in El Salvador, most of the formal housing and mortgage loan options available in the market target the social strata with the greatest purchasing power. Therefore, loans below US\$20,000 and US\$10,000, which are typically provided to low-income individuals and households, respectively account for only 13.7% and 6.5% of the financial system's total housing loan balance. Estimates show that addressing the qualitative housing deficit could require annual investments of approximately US\$388 million.²⁸

²² Initial approximations mention that a 19% funding gap for MSMEs could correspond to those owned or run by women.

²³ World Bank's [Global Financial Index](#).

²⁴ World Bank's [Enterprise Surveys](#).

²⁵ Ibid.

²⁶ Op. cit. Barrios, J.J. et al. (2019).

²⁷ Bouillon, C. (2012). Un espacio para el desarrollo.

²⁸ UN-HABITAT (2014). Perfil del sector vivienda de El Salvador.

Table 3. Housing loans by size as of December 2019*

Ranges of loans	Balance due	
	US\$ millions	%
Up to US\$10,000	236.43	6.5
US\$10,001 to US\$20,000	503.03	13.7
US\$20,001 to US\$50,000	867.15	23.7
US\$50,001 to US\$250,000	1,761.99	48.1
Over US\$250,000	291.24	8
Total	3,659.84	100

* Includes information from deposit-taking financial institutions and the Low-income Housing Fund (FSV).

Source: Prepared by the authors based on SSF data.

- f. In general, the low amounts of the operations and the higher transaction costs associated with them discourage financial institutions from providing loans for low-income housing. However, available studies show that: (i) 6 of 10 potential buyers seek homes worth US\$20,000 or less, indicating that demand focuses on housing levels that could be considered as low-income housing; (ii) 8 of 10 potential buyers expect to make monthly payments of no more than US\$200 for housing; and (iii) nearly 75% of interested buyers have monthly household incomes ranging from US\$401 to US\$700.²⁹
- 1.5 **Other constraints and challenges in access to credit.** Only 11.92% of the financial system's institutions' liabilities have terms longer than one year, which discourages the medium- to long-term financing needed by MSMEs and for low-income housing. This condition, coupled with the information asymmetries that increase uncertainty and hinder risk assessment, as well as the high administrative costs of supervision and monitoring, limit the incentives for financial institutions to finance value-added projects. A clear example is climate finance, which has crosscutting considerations for the business and housing lending sectors. Since the country is classified as one of the most vulnerable to climate change,³⁰ in 2019 private and State-owned banks signed environmental and sustainability agreements to finance projects that foster environmental conservation and community development.³¹ However, the lack of long-term obligations hampers a better supply from financial institutions for these types of investments, since they require an average of five years for repayment.³²

²⁹ Data from Bertrand, F. (2016): Diseño de un Fondo para Financiar Leasing Habitacional con BANDESAL.

³⁰ The *Global Climate Risk Index* ranked El Salvador as the sixth-highest Latin American and Caribbean country with respect to climate risk.

³¹ The country's investment needs to implement climate change mitigation and adaptation measures for the 2018–2030 period are US\$2.09 billion.

³² While El Salvador lacks studies on gaps and vulnerabilities with respect to climate finance, in 2015 a study commissioned by the Bank and BANDESAL showed there was a potential to reduce 28,000 tons of CO₂ by providing financing for clean technology investments to SMEs.

Table 4. Medium- and long-term obligations as of December 2019

	Banks	Cooperative Banks	Savings and Loan Associations	System
Deposits over 1 year (US\$ millions)	323.78	192.42	20.51	536.71
Debts over 1 year (US\$ millions)	1,299.30	340.05	57.18	1,696.53
Total, liabilities over 1 year (US\$ millions) (a)	1,623.08	532.46	77.69	2,233.23
Total, liabilities (US\$ millones) (b)	17,016.01	1,389.69	329.59	18,735.29
% medium- and long-term liabilities (a / b)	9.54	38.32	23.57	11.92

Source: Prepared by the authors based on SSF data.

- 1.6 **Loans for economic recovery.** The sudden stop in economic activity resulting from COVID-19 impacted financial-institution lending for the business sector. Financial institutions are responding by providing loans for working capital,³³ renegotiating or relaxing the terms for existing loans, and following measures established by the authorities to freeze collection of installments and charging of interest and penalties. Although, on a temporary basis, these provisions will not impact the credit ratings of borrowers, portfolio quality declines and liquidity pressures are expected based on the dynamics of the new debt being issued.
- 1.7 Market surveys conducted in late May 2020 indicated that 94% of companies experienced losses since the COVID-19 emergency began, 49% completely suspended operations, 43% are operating partially, and only 7% are operating normally. According to the same survey, 14% of the companies that were still operating expected to close within four weeks. Among those remaining, 45% would need 1–6 months to return to their precrisis billing levels; 23%, 7–9 months; 14%, 10–12 months, and 18%, more than a year.³⁴ Perceptions of current conditions and expectations for the future are not optimistic. Therefore, the Business Confidence Index experienced its largest drop ever (60.3 in March 2020), below that recorded during the international financial crisis (64.0 in November 2008).³⁵
- 1.8 This means that for MSMEs, the problem of access to credit will intensify. From the supply side, evidence suggests that financial institutions behave in a procyclical manner and might restrict lending or reduce risk in times of economic recession.³⁶ Without adequate countercyclical sources of finance, financial institutions might disregard incentives to continue to offer financing to MSMEs. On the demand side, during the economic recovery period, the business fabric will be different from what existed prior to the COVID-19 crisis. The surviving MSMEs will need financing that enables them to maintain and continue their businesses. This means having access to credit for working capital and fixed-asset investments in the medium and long term.³⁷
- 1.9 **The role of public credit institutions.** In El Salvador, public credit institutions such as Banco de Desarrollo de la República de El Salvador (BANDESAL) and the Low-income Housing Fund (FSV) are relevant in the business and housing

³³ Banco Hipotecario took a leadership role in providing liquidity loans to MSMEs.

³⁴ According to business surveys from the Chamber of Commerce and Industry of El Salvador.

³⁵ Index calculated monthly by the Salvadoran Foundation for Economic and Social Development.

³⁶ IDB (2020). Policies to Fight the Pandemic: 2020 Latin American and Caribbean Macroeconomic Report.

³⁷ Information about demand in this paragraph is based on interviews with financial institutions that are BANDESAL clients (April and May 2020).

sectors, respectively.³⁸ BANDESAL's objective is to contribute to the economic and social development of productive sectors—particularly the business sector that includes micro, small, and medium-sized enterprises—by offering second-tier and first-tier lending and administering trusts such as the Fondo Salvadoreño de Garantías and the Fondo de Desarrollo Económico.³⁹ Until late 2019, more than 94% of loans from BANDESAL focused on second-tier credit lines (US\$398 million), recording disbursements of approximately 20,000 loans through 74 first-tier financial institutions.⁴⁰ Of the loans provided by BANDESAL, 55% were provided to MSMEs ([optional link 5](#)). Separately, the FSV operates in the financial system's first tier and offers loans to low-income workers to purchase new housing, as well as to build, repair, expand, and improve housing. As of December 2019, the FSV administered a US\$1.234 billion mortgage portfolio with 119,041 loans. Of these loans, 86.7% were for customers with income up to 2.5 times the monthly minimum wage ([optional link 6](#)).

- 1.10 **Rationale for the Conditional Credit Line for Investment Projects and the first operation.** Closing the gaps in business and housing lending in El Salvador requires an intervention that is coordinated, sustained over the long term, and executed by robust entities in both sectors. A Multisector Modality II (MM-II) CCLIP is the best IDB instrument to support this purpose, through public credit institutions such as BANDESAL and the FSV. The CCLIP will contribute to the ongoing dialogue between the government and key stakeholders with the Bank on the financial system, especially the areas of financing for MSMEs and low-income households, and will provide long-term resources so BANDESAL and the FSV can provide financial solutions tailored to the sectors they work in.
- 1.11 At the request of the Government of El Salvador, BANDESAL will execute the first operation under the CCLIP as part of its countercyclical intervention strategy, during an economic recession phase in which MSMEs could face restricted access to adequate credit for their recovery. The program will provide financial resources to BANDESAL within a context of difficult access to foreign sources of finance.⁴¹ BANDESAL will channel resources from the second tier through financial institutions, who in turn will offer loans to MSMEs for working capital and fixed-asset investments.
- 1.12 **The Bank's experience and lessons learned.** The most significant experience and lessons learned are from loan [3271/OC-ES](#), approved in 2014 for US\$100 million and executed by BANDESAL between 2015 and 2018. Its objective was to support productivity growth at micro, small, and medium-sized enterprises by improving their access to medium- and long-term credit for

³⁸ Other public credit institutions in El Salvador are the Instituto de Garantía y Depósitos, the Fondo de Saneamiento y Fortalecimiento Financiero, and the Corporación Salvadoreña de Inversiones. Banco Hipotecario and Banco de Fomento Agropecuario, which operate in the financial system's first tier, could also be considered public credit institutions.

³⁹ The Law establishing Banco de Desarrollo de la República de El Salvador authorizes BANDESAL to conduct financial operations, acting through financial institutions or directly with eligible parties.

⁴⁰ BANDESAL also serves financial institutions not overseen by the SSF, such as microfinancing nongovernmental organizations and cooperatives, and therefore its intervention perimeter is larger than the 25 financial institutions mentioned in paragraph 1.2.

⁴¹ Based on BANDESAL's internal estimates, its second tier MSME portfolio might contract by 30% in the medium term, if it lacks access to a new source of resources.

productive investment and restructuring projects.⁴² This program was successful because it aligned the objectives of BANDESAL and of the Salvadoran government during an economic cycle characterized by the lack of sources of funds targeting MSMEs. This operation exceeded the original indicators in a shorter period than expected, benefitting 4,846 MSMEs through a network of 26 financial institutions that provided subloans with an average value of US\$25,000 and a five-year term.⁴³ The [program's impact analysis](#) concluded that the beneficiaries of subloans financed by BANDESAL subsequently improved their profile as financial system customers, since they would generally obtain new production-oriented subloans for larger amounts. They also maintained their credit quality over time. The [program completion report](#) identified lessons learned that are being applied for this operation, such as: (i) the importance of also considering financing working capital as part of the loan provided to BANDESAL, since it is relevant to the institution's productive financing portfolio, and there is international evidence that working capital contributes to productive activities;⁴⁴ and (ii) the significance of preparing monitoring systems in a timely manner and of collecting data early from end beneficiaries with respect to jobs, sales, revenue, etc., to be able to prepare a solid impact evaluation. Internationally, the lessons learned originate from the financial crisis that began in 2007. The Bank played a countercyclical role by approving liquidity programs to sustain economic growth, intended to reestablish access to credit. After the crisis (2009–2013), contingent lines of credit were approved to provide liquidity, as well as global multisector credit programs and—for the most part—specific productive financing programs for MSMEs.

1.13 Coordination with the IDB Group. The program will seek to establish complementarity and develop synergies with other IDB Group initiatives with the public and private sectors.

a. **Complementarity with other Bank operations.** There is complementarity with loan [4567/GN-ES](#) (2018; US\$20 million), which is in execution by BANDESAL and intended to finance investments by SMEs in energy efficiency projects. As part of this intervention, BANDESAL is improving its information systems and data collection and analysis mechanisms, which may benefit this new operation. In addition, there is complementarity with loan [4977/OC-ES](#) (2020; US\$20 million), which will be executed by Banco de Fomento Agropecuario as a first-tier bank and targets MSEs from municipios with high rates of marginalization. BANDESAL and Banco de Fomento Agropecuario will combine first- and second-tier credit distribution mechanisms, ensuring better targeting of MSMEs as well as improved reach and geographical depth. There is also complementarity with loans [3170/OC-ES](#) (2014; US\$40 million) and [2966/OC-ES](#) (2013; US\$25 million). These are in execution by the Ministry of

⁴² Section IV of the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7) includes a more extensive and detailed set of lessons learned from the Bank's experience in the sector.

⁴³ The plan was to benefit 1,017 MSMEs and provide loans with four-year term. The 26 financial institutions mentioned are among 74 institutions with access to second-tier lending from BANDESAL.

⁴⁴ Aparicio, G., et al. (2020). *Measuring the Effects of Productive Credit Through Public Development Banks in Rural Mexico*.

Economy and the Ministry of Tourism,⁴⁵ respectively, and include activities to build the capacity and competitiveness of MSMEs. This would make them potential beneficiaries for the proposed program since they may need credit. Lastly, there is complementarity with operations recently approved by the Bank as part of responding to the COVID-19 crisis. They are a special development lending operation ([5036/OC-ES](#); US\$250 million) and the first of two programmatic policy-based loans ([5046/OC-ES](#); US\$250 million).⁴⁶ These fiscal support programs are complementary, since they will help finance the Salvadoran government's plan to address the COVID-19 emergency and implement economic recovery measures.⁴⁷

- b. **Complementarity with IDB Lab and IDB Invest.** This program will coordinate with IDB Lab as part of operations such as [ATN/ME-17758-ES](#) and [ATC/ME-17759-ES](#), both from 2019, aimed at developing digital tools for financial management, payments, and marketing targeting SMEs, to build their capacity and improve their options for access to credit. With IDB Invest, complementarity will be essential to launch a dialogue with first-tier financial institutions and their associations, and particularly to develop a crowding-in effect in providing finance to micro, small, and medium-sized enterprises through the BANDESAL program. There are plans for financial institutions that have active and pipeline operations with IDB Invest to play a promotional role for MSME finance, to supplement the efforts of BANDESAL and this operation. In general, the program will coordinate actions with IDB Lab and IDB Invest to identify financial institutions that are better able to transfer favorable financing conditions from BANDESAL to end beneficiaries.
- 1.14 **Additionality and value added by the Bank.** The Bank will support BANDESAL in a time of economic recession during which MSMEs are expected to face a lack of resources to finance their recovery plans. With guidance from the Bank, BANDESAL is preparing a monitoring and evaluation strategy and investing its own financial resources to strengthen its information systems for customer data collection and processing. In addition, BANDESAL began working internally to classify and analyze data disaggregated by gender, to identify potential gaps or bias in providing finance to women entrepreneurs. Lastly, the Bank is helping BANDESAL consider climate change mitigation and adaptation elements by fostering the creation of a classification system to identify these types of subloans and promoting their adoption by BANDESAL and first-tier financial institutions.
- 1.15 **Technical cooperation funding.** Technical cooperation funding [ATN/OC-17746-ES](#) for US\$150,000 was approved in 2019 to support the execution of the first operation under the CCLIP. These resources will be prioritized

⁴⁵ The available balances of loans [3170/OC-ES](#) and [2966/OC-ES](#) as of June 2020 are US\$14.2 million and US\$4 million, respectively.

⁴⁶ The program will support a US\$389 million loan from the International Monetary Fund, which was approved under the rapid financing instrument modality.

⁴⁷ The government's plan includes taking on US\$2 billion in debt to finance the Economic Emergency, Recovery, and Rebuilding Fund and US\$600 million to finance a trust to foster the economic recovery of MSMEs.

to help design a monitoring and evaluation system for BANDESAL and finance preparations for the program's impact evaluation.⁴⁸

- 1.16 **Strategic alignment.** The program is aligned with the Update to the Institutional Strategy 2020-2023 (document AB-3190-2) through the following development challenges: (i) low productivity and innovation, by expanding access to finance for MSMEs through second-tier lending for BANDESAL; and (ii) social exclusion and inequality, by promoting the financial inclusion of MSMEs impacted by the COVID-19 crisis in order to assist with their economic recovery. The program is also aligned with the crosscutting theme of gender equality and diversity, since, in addition to fostering the adoption of definitions for women-owned MSMEs and collecting data disaggregated by gender, it will enable the launch of a second-tier line of up to US\$40 million targeting exclusively this segment. The operation is consistent with the crosscutting theme of climate change and environmental sustainability, since it will use a classification system to help ensure that at least 10% of its resources (US\$20 million) are invested in subloans related to climate change mitigation and adaptation activities, according to the [Multilateral Development Banks' joint methodology on estimating climate finance](#). These funds will contribute to the IDB Group's target of boosting financing for climate-change-related projects to 30% of operation approvals by the end of 2020. The program also contributes to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the following indicators: (i) women beneficiaries of economic empowerment initiatives; and (ii) micro, small, and medium enterprises financed. Moreover, the program is aligned with the Sector Strategy: Institutions for Growth and Social Welfare (document GN-2587-2), particularly its component of enhancing SME productivity and growth. It is also consistent with the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7), by improving the efficiency and scope of bank credit intermediation to the productive sector. The program is consistent with the IDB Country Strategy with El Salvador 2015-2019 (document GN-2828), since it addresses the crosscutting themes of climate change adaptation, empowerment of women, and gender equality by promoting subloans to MSMEs in these sectors and market segments. In addition, the operation addresses the productive development dialogue area because of its direct connection with MSME financing. Lastly, this operation is included in the 2020 Operational Program Report (document GN-2911-1).

B. Objectives, components, and cost

- 1.17 **Objective of the CCLIP.** The objective of the Conditional Credit Line for Investment Projects (CCLIP) is to promote productive activities and social welfare in El Salvador by providing access to credit in the business and housing sectors.
- 1.18 **Objective of the first operation under the CCLIP.** The general objective of the first operation under the CCLIP is to support the sustainability of micro, small, and medium-sized enterprises (MSMEs) in El Salvador by financing second-tier lending for BANDESAL. The specific objective is to foster the economic recovery of Salvadoran MSMEs by providing them access to productive credit for working capital and fixed-asset investments.

⁴⁸ Details of other technical cooperation operations benefitting BANDESAL are available in [optional link 9](#).

- 1.19 **Single component: Productive credit (US\$200,000,000).** The eligible financial institutions that access second-tier lending from BANDESAL will onlend the resources for this component as subloans to MSMEs. These subloans are intended to finance working capital and fixed-asset investments in the medium and long term, increasing the operational capacity of MSMEs and in turn fostering their productive activities and recovery.⁴⁹ The average value of MSME subloans will be around US\$25,000, although it will vary based on their use for working capital and fixed-asset investments. The financial institutions and MSMEs will freely agree upon the financial terms and conditions. However, at a minimum these will include: (i) financially profitable interest rates; (ii) term of 12 months or longer; and (iii) a degree of transfer of the benefit of the grace period. The [Credit Regulations](#) will incorporate more details about the terms and conditions, including options for restructuring, rescheduling, refinancing, and consolidating subloans, as long as legal and technical feasibility criteria are met.
- 1.20 **Gender considerations.** In order to address the systemic lack of relevant data in the country, the program considers collecting and monitoring data disaggregated by gender for the subloans provided to MSMEs owned or managed by women. For these purposes, it will adopt definitions based on best practices and modify its data-capture procedures for financial-institution transactions. BANDESAL will channel up to US\$40 million in program resources for second-tier lending exclusively targeting MSMEs owned or managed by women. These measures will increase the share of these types of subloans in BANDESAL's institutional MSME portfolio and facilitate the operation's long-term sustainability. The Credit Regulations will describe the measures to achieve these goals.
- 1.21 **Climate change.** BANDESAL will develop and implement a classification system to identify subloans with potential for climate change mitigation and/or adaptation in the program's portfolio of subloans to monitor their contribution to the institutional targets that it has as a member of the Green Protocol for the Financial System of El Salvador. With the help of the classification system, during program execution, BANDESAL will ensure that at least 10% of program resources (US\$20 million) are invested in subloans of this type. The Credit Regulations will describe the measure to achieve these goals.
- 1.22 **Program management.** BANDESAL will cover the costs for program administration, monitoring, evaluation, and auditing.
- 1.23 **Beneficiaries.** The end beneficiaries of the program will be individuals and businesses that qualify as MSMEs based on the country's legal system and BANDESAL's internal policies ([optional link 3](#)). Micro, small, and medium-sized enterprises from all sectors of the economy are eligible for financing. Given that the operation will help MSMEs recover during the post-COVID-19 emergency period, it is expected to have the following beneficiaries: (i) MSMEs that are still profitable, from the least affected areas of the economy; and (ii) MSMEs that are fragile and vulnerable but survived the shutdown period. Micro, small, and medium-sized enterprises that are startups owned by business owners or

⁴⁹ Medium- and long-term subloans are those issued for 12 months or longer. Based on BANDESAL's commercial product offerings, the term for working capital subloans is up to 48 months. The subloans for working capital may finance overhead and administrative expenses (considered recurring expenses) in the case of MSMEs impacted by COVID-19.

employees of MSMEs that closed during the worst part of the emergency will also receive support from the program. Beneficiary MSMEs for program subloans should meet the capacity assessment and willingness to pay requirements of first-tier financial institutions. Based on ex ante estimates, 8,282 MSMEs were identified as program beneficiaries.

C. Key results indicators

- 1.24 **Expected outcomes.** The program's expected impacts on the economic recovery of MSMEs will be measured through: (i) average sales revenue for MSMEs supported by the program; and (ii) jobs at MSMEs because of program lending, as a percentage of total jobs in the country. The outcome indicators for the program will be as follows: (i) rate of arrears for the MSME financing portfolio for working capital and fixed-asset investments supported with program resources, compared to the average rate of arrears for the financial system; (ii) percentage of medium-term credit (12 months or longer) for the MSME financing portfolio for working capital and fixed-asset investments supported by the program; (iii) leveraging of financing resources for working capital and fixed-asset investments achieved by MSMEs because of the program; (iv) amount of the MSME financing portfolio for working capital and fixed-asset investments; and (v) percentage of medium-term credit (more than 12 months) provided to women-owned MSMEs in the medium-term MSME portfolio.
- 1.25 **Economic viability.** The economic evaluation identified the flows of benefits and costs generated by the program. The benefits consist of the economic value of the reduction in sales revenue losses, the benefits derived from a higher rate of business survival, and the benefits of jobs preserved because of the program. Calculations of these flows (discounted at a rate of 12%) yield benefits of US\$39.1 million and an internal rate of return of 20%. In addition, the sensitivity analysis showed robust positive results to changes made in the determining parameters used to estimate program benefits ([optional link 1](#)).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 **Conditional Credit Line for Investment Projects (CCLIP).** The Bank will help achieve the Salvadoran government's multisector objective of promoting access to credit in the business and housing sectors through a CCLIP with the following features:
- a. **Modality.** The CCLIP will be implemented under Multisector Modality II (MM-II), pursuant to the criteria described in the Proposed Amendments to the Conditional Credit Line for Investment Projects (CCLIP) and the Multi-Phase Program Loans (document GN-2246-13). The liaison agency will be the Ministry of Commerce and Investment and the executing agencies will be BANDESAL and the Low-income Housing Fund (FSV).
 - b. **Rationale.** Pursuant to the definition of MM-II CCLIPs, BANDESAL and the FSV are two public credit institutions recognized for carrying out their assigned roles of promoting business development and productivity, as well as of improving the quality of housing. They have the capacity to prepare and

execute operations in their respective sectors. Specifically, this MM-II CCLIP will provide the Salvadoran government with a strategic instrument to ensure a continuous presence in sectors with many MSMEs, such as low-income people and households who require support through access to credit. Moreover, one advantage of this MM-II CCLIP is that short-, medium-, and long-term programs will be available in a timelier manner, based on each sector's needs. It will also provide the necessary continuity to expand the scope of the financial system.

- c. **Crosscutting sectors and themes.** This CCLIP is intended for the business and housing lending sectors. BANDESAL will execute programs for the business lending sector, aimed at providing production-oriented finance solutions to companies of all sizes, areas of the economy, and geographical regions in the country, without restrictions. However, it will prioritize MSMEs that face constraints obtaining access to the financial system or are unable to find suitable financing products for their support and development needs. The multisector nature of BANDESAL is worth mentioning since its portfolio includes participation in the agriculture and livestock, housing, transportation, energy, education, and other sectors ([optional link 5](#)). The FSV will execute housing lending programs, aimed at providing solutions that address the housing needs of the country's formal and informal workers for the purchase or construction of housing, as well as to repair, expand, or improve living spaces. The CCLIP includes the crosscutting themes of gender equality and diversity and climate change and environmental sustainability.
- d. **Amount and term.** The total amount of the CCLIP is US\$400 million.⁵⁰ Funds for the individual operations under the CCLIP may come from the Bank's Ordinary Capital or the resources it administers. They will be available by means of loan or guarantee options to support investment projects, based on the respective operation proposals. The term of the CCLIP will be 10 years, with two operations planned for BANDESAL and two for the FSV.⁵¹

- 2.2 **Costs and programming for the first operation under the CCLIP.** The first operation will be executed by BANDESAL for the business lending sector. It will be structured as a US\$200 million global credit program from the Bank's Ordinary Capital. The Bank resources will be disbursed within 48 months as of the entry into force of the loan contract and will be committed within 45 months of that same date. The term and annual disbursement amounts were estimated based on BANDESAL's internal projection models, with variables that capture: (i) the dynamics of high demand for credit from MSMEs during an economic recovery period; (ii) reduced access or a shortage in long-term international sources of finance; and (iii) the volatility of liquidity levels in the local financial market due to the uncertainty faced by economic agents.

⁵⁰ According to the Salvadoran government's internal allocations, US\$300 million of the CCLIP would be used for BANDESAL programs and US\$100 million for FSV programs.

⁵¹ The operations with BANDESAL as the executing agency will be channeled only through second-tier instruments.

Table 5. Estimated IDB disbursements

	Year 1	Year 2	Year 3	Year 4	Total
US\$ millions	80	60	40	20	200
%	40	30	20	10	100

B. Environmental and social risks

- 2.3 In accordance with directive B.13 of the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation cannot be classified *ex ante* since it involves financial intermediation. Based on the environmental and social due diligence findings to analyze the potential socioenvironmental risks of eligible subloans and BANDESAL's ability to manage them, this operation is regarded as having a moderate financial intermediation risk (FI-2). The program's subloans are expected to be Category "C" or "B" operations pursuant to the Bank's classification, given that most eligible financing has a low risk profile. A maximum amount of US\$1,750,000 was established to assist medium-sized enterprises with larger-than-average projects. Category "A" projects will not be eligible for financing under the program. Fulfillment of applicable local regulations and implementation of an Environmental and Social Risk Management System will be included in the Credit Regulations, which will be approved by the Bank as a condition precedent to the first disbursement ([required link 2](#)).

C. Other risks and key issues

- 2.4 **Development risks.** There is a high risk that in a post-COVID-19-crisis scenario, the adverse impacts on the economic activities of micro, small, and medium-sized enterprises will be sustained or deepen, which could impact the ability to repay loans for the most vulnerable businesses. Also, some MSMEs may not survive and might stop paying their loans. BANDESAL will mitigate this risk by reviewing and strengthening its risk and eligibility policies for financial institutions. This will ensure that loan proceeds will be channeled through the institutions with the best tools for risk assessment and that subloans are provided to MSMEs whose probabilities of default are estimated as low.
- 2.5 **Public management and governance risk.** This includes two risks: (i) a high risk of duplication of efforts or a slowdown in assisting MSMEs if there is a lack of effective coordination and direction among various public sector entities that will be part of the government plan to address the COVID-19 crisis, or if interventions by other public and private entities also have MSMEs as a target segment. BANDESAL, with support from the Bank, will undertake a high-level dialogue with all stakeholders to implement strategic coordination mechanisms that ensure that subloans are provided to MSMEs through orderly, complementary, and synergetic interventions; and (ii) a high risk that as a result of new laws and reforms being proposed for economic recovery,⁵² BANDESAL is granted a role to allocate resources and efforts as a first-tier institution (a segment that is still at an early

⁵² The Legislative Assembly of El Salvador is considering a bill to create a trust for the economic recovery of Salvadoran companies, intended to provide financial assistance to MSMEs affected by the COVID-19 crisis. In addition, on 4 June 2020, the Assembly approved a reform proposal for the Law establishing Banco de Desarrollo de la República de El Salvador, which took effect on 17 June 2020. The reforms include measures seeking to expand BANDESAL's operations with eligible first-tier parties.

stage in its portfolio), which might impact its business structure. As a mitigation measure, BANDESAL will arrange to administer first-tier resources outside its balance sheet and/or establish exposure limits to ensure a portfolio structure that mostly focuses on second-tier lending through financial institutions.

- 2.6 **Macroeconomic and fiscal sustainability risk.** There is a high risk that the combination of the health and economic crisis and external factors will significantly affect government accounts and access to foreign sources of finance, jeopardizing fiscal sustainability in the medium term. To mitigate this risk, the Bank, together with other international organizations, is providing technical assistance to the country to prepare and monitor the implementation of post-pandemic economic and fiscal recovery plans that will help put public finances back on a sustainable trajectory.⁵³
- 2.7 **Monitoring and accountability risk.** There is a medium risk of lacking sufficient information for an impact evaluation if the program is executed more quickly than planned and/or of not having suitable methodology or an information system to capture the necessary data. To mitigate this risk, in late 2019 BANDESAL established a monitoring team and budgeted financial resources to develop its systems. The Bank is also assisting BANDESAL with this through specialized technical-cooperation funding activities ([optional link 9](#)).
- 2.8 **Sustainability.** BANDESAL will execute program resources using preferential financial terms and conditions that financial institutions can transfer to MSMEs, but that at the same time ensure sufficient financial returns to cover costs and generate earnings. Therefore, BANDESAL will be able to reinvest the funds obtained in more transactions of a similar nature in the medium and long term.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower, executing agency, and guarantor.** Banco de Desarrollo de El Salvador (BANDESAL) will be the borrower and executing agency for this first operation, with sovereign guarantee provided by the Republic of El Salvador. BANDESAL is an autonomous public credit institution with an indefinite term of existence, independent legal status, and its own assets. At year-end 2019, BANDESAL had US\$539 million in assets and a US\$406 million loan portfolio net of restructuring reserves, of which 94% was placed in second-tier banking operations with financial institutions and only 6% in first-tier operations. Its earnings were US\$5.4 million, representing a 2.2% return on equity. BANDESAL is overseen by the Office of the Superintendent of the Financial System and complies with the regulations issued by the Central Reserve Bank of El Salvador.
- 3.2 **Execution and administration.** The Funding and Development Management Division of BANDESAL will be responsible for coordinating the arrangements for program execution. Details of its activities will be described in the Credit Regulations. The results of an assessment using the Institutional Capacity Assessment Platform performed during the first quarter of 2020 confirmed that BANDESAL has high capacity to conduct the financial management and

⁵³ The Bank is assisting the government with fiscal support operations as detailed in paragraph 1.13.a.

administration activities for the loan proceeds and presents a low fiduciary risk. The opportunities for improvement identified and response actions are:

- a. Promote internal supervision, considering the Bank's assessment parameters and methodology to measure performance in evaluations. The response actions for this will be executed through technical cooperation funding [ATN/OC-17746-ES](#) (paragraph 1.15) and the monitoring arrangements for program outcomes (paragraphs 3.12, 3.13, and 3.14).
- b. Review planning-related aspects to ensure that the operation is executed within the established timeline. The response action was implemented by BANDESAL through internal projection models to estimate disbursements for this program (paragraph 2.2).

3.3 Interagency coordination. During program execution, BANDESAL will coordinate in two ways.

- a. **Liaison agency.** The Ministry of Commerce and Investment is the liaison agency for the CCLIP ([optional link 11](#)). Therefore, BANDESAL will meet with this ministry at least once a year to review progress in program execution and achievement of targets, as well as to jointly propose, if necessary, operational modifications to improve program performance. BANDESAL will send to this ministry reports and documents pursuant to section B, "Summary of arrangements for monitoring results," enabling it to monitor the program. If necessary, BANDESAL and the ministry may reach additional agreements.
- b. **Strategic coordination mechanisms.** As mentioned in paragraph 2.5.(i), BANDESAL will proactively coordinate with the formal interagency and intersector mechanisms established for public and private initiatives to support the MSMEs affected by COVID-19. These mechanisms will improve BANDESAL's strategic orientation, ensuring that it will carry out timely, appropriate actions to provide the program's subloans.

3.4 Credit Regulations. The program Credit Regulations will establish the terms and conditions for program execution, including the specific characteristics of MSME subloans, treatment of subloans by amount, options for reorganization, reprogramming, refinancing, and consolidation, as well as measures for monitoring of socioenvironmental considerations, limits on the use of funds, and other conditions; the environmental and social management requirements; the fiduciary obligations; and the monitoring and evaluation requirements ([optional link 10](#)). The Credit Regulations may not be modified without the approval and/or no objection of the Bank.

3.5 Eligibility of financial institutions. All financial institutions with borrowing authority in BANDESAL will be eligible to receive program resources. BANDESAL's eligibility evaluation system is determined by institutional credit policies approved by its Board of Directors. If applicable, the Credit Regulations will include supplementary information on program eligibility criteria.

3.6 Special contractual conditions precedent to the first disbursement of the loan. A special contractual condition precedent to the first disbursement of the proposed program resources is the approval by BANDESAL of the [Credit Regulations](#) for this operation, with the Bank's prior no objection. This

condition is justified, because the Credit Regulations will include details on the guidelines adopted for the program's single component and the socioenvironmental conditions pursuant to the environmental and social management report ([required link 2](#)).

- 3.7 **Exceptions to Bank policies.** A partial waiver of the Policy on Guarantees Required from the Borrower (Operational Policy OP-303) is requested from the Board of Executive Directors, so the Republic of El Salvador will only guarantee the monetary obligations of the loan contract between the Bank and BANDESAL. This waiver is justified, since according to Salvadoran authorities, Article 11 of the State Financial Administration Act provides that obligations associated with the execution of loans are beyond the legal mandate of the Republic of El Salvador. This waiver was granted for loans 4977/OC-ES and 4567/GN-ES.
- 3.8 **Procurement and contracting.** As a demand-driven program with a single component exclusively to finance subloans, there will be no need to procure goods, works, nonconsulting services, or consulting services as part of execution. No program execution plan or procurement plan is therefore included in this proposal.
- 3.9 **Retroactive financing.** The Bank may retroactively finance, from the loan proceeds, subloans issued by financial institutions and eligible expenditures incurred by the borrower prior to the loan approval date to finance the subloans for the single component for up to US\$40 million (20% of the proposed loan amount), provided that they have met requirements similar to those established in the loan contract. Such expenditures will have been incurred on or after 14 April 2020 (program profile approval date), but in no case may they include expenditures incurred more than 18 months prior to the loan approval date.
- 3.10 **Disbursements.** The IDB will disburse program resources in the form of advances, although another disbursement modality may be used upon prior agreement with the Bank. Disbursement requests will be accompanied by a duly supported financial plan based on the requirements of the Credit Regulations. BANDESAL will prepare annual disbursement schedules covering a 12-month rolling period, based on which disbursements will be formulated for periods of six months.
- 3.11 **Financial statements and audit.** Audits of the program's financial statements will be conducted in accordance with the procedure previously agreed upon with the Bank. Within 120 days following the end of the program's fiscal year throughout the original disbursement period or any extensions thereof, the executing agency will deliver BANDESAL's audited financial statements and the program's financial reports, accompanied by the opinion of an independent audit firm acceptable to the Bank, as well as annual reports of BANDESAL's risk rating.

B. Summary of arrangements for monitoring results

- 3.12 **Monitoring.** Program execution for the first operation will be monitored via semiannual progress reports prepared by the executing agency and delivered within 60 days after the close of each six-month period. The reports will be based on the reporting commitments included in the Results Matrix and the financial progress reports indicated in the General Conditions of the loan contract, fulfillment of eligibility criteria set forth in the Credit Regulations ([required link 1](#)), and information on the quality of the loan portfolio from the BANDESAL balance sheet,

disaggregated by first and second tier, as well as on the trusts or other financial instruments under its administration, as agreed in the Credit Regulations. These reports will be reflected in the progress monitoring reports.

- 3.13 **Evaluation.** A reflexive evaluation will be conducted, before and after the program, to show the scope of the outcomes and impacts, as well as an ex post cost-benefit analysis of the flows of benefits and costs stemming from the program. This includes the preparation of a quasi-experimental difference-in-differences impact evaluation with a treatment group consisting of MSME beneficiaries of the program, and a control group consisting of eligible MSMEs that are not program beneficiaries. This evaluation will be the first of its kind in the country and will be conducted by a working group comprised of BANDESAL, the SSF, and one of the most relevant financial institutions for program-resource lending. The results will be used to understand the contribution of financing for MSMEs at a time of economic recovery and address questions about their survival, progress of their sales revenue, and employment levels. The evaluation strategy is described in the monitoring and evaluation plan ([required link 1](#)). The executing agency will bear the costs of evaluation and monitoring.
- 3.14 **Information for program monitoring and evaluation.** The executing agency will be responsible for maintaining data collection systems and monitoring and evaluation of the single component, which it will use to prepare the reports and data to be delivered to the Bank. For purposes of the evaluation, the executing agency will compile, store, and safeguard all the information, indicators, and parameters necessary to prepare the program completion report, including the annual plans. The additional information required for the evaluation process will be drawn from national and international secondary sources of statistical data and, potentially, reports from relevant organizations.

IV. ELIGIBILITY CRITERIA

- 4.1 **Eligibility of the Conditional Credit Line for Investment Projects (CCLIP).** This MM-II CCLIP meets the criteria set forth for this modality in document GN-2246-13, since:
- a. The multisector objective of the CCLIP is one of the priorities defined in the IDB Country Strategy with El Salvador 2015-2019 (document GN-2828), specifically the dialogue areas of productive development and of land management, urban development, and housing.
 - b. The Ministry of Commerce and Investment will be the liaison agency for the CCLIP, as appointed by the Salvadoran government ([optional link 11](#)). The ministry has authority to coordinate and monitor the programs financed under this credit line, based on the powers established in Chapter X of Decree 1 of 2 June 2019. The ministry will observe the flow of operations in each sector and formulate modification proposals to achieve the CCLIP objectives if it deems such action necessary. Coordination arrangements between BANDESAL and the ministry are indicated in paragraph 3.3(a).
- 4.2 **Eligibility for the first operation under the CCLIP.** With respect to meeting eligibility criteria for the first operation under the MM-II CCLIP defined in the policy (document GN-2246-13):

- a. BANDESAL has institutional capacity that was previously evaluated using the Institutional Capacity Assessment Platform methodology. The outcomes were a high average rating, a satisfactory level of development objective achievement, and low risk levels. BANDESAL executed loan [3271/OC-ES](#) until late 2018, showing satisfactory performance, meeting loan contract conditions, and obtaining an unqualified opinion in the financial audit reports.
- b. The objective of the first operation, to support the sustainability of MSMEs in El Salvador by financing second-tier lending for BANDESAL, contributes to the achievement of the multisector objective of the CCLIP, which is to promote productive activities in the country by providing access to credit in the business sector.
- c. The first operation and its single component are within the sector of access to credit for businesses defined under the CCLIP.
- d. The loan proposal for the first operation includes specific capacity-building actions for BANDESAL that are aligned with the recommendations of the Institutional Capacity Assessment Platform methodology (paragraphs 3.2(a) and 3.2(b)).

Development Effectiveness Matrix		
Summary		ES-L1138
I. Corporate and Country Priorities		
1. IDB Development Objectives		
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity -Climate Change and Environmental Sustainability	
Country Development Results Indicators	-Women beneficiaries of economic empowerment initiatives (#)* -Micro / small / medium enterprises financed (#)*	
2. Country Development Objectives		
Country Strategy Results Matrix		
Country Program Results Matrix	GN-2991-1	The intervention is included in the 2020 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		The intervention contributes to the crosscutting issues of climate change adaptation and empowerment of women and gender equality; and to the dialogue area of productive development issues with emphasis on financial inclusion.
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		10.0
3.1 Program Diagnosis		3.0
3.2 Proposed Interventions or Solutions		4.0
3.3 Results Matrix Quality		3.0
4. Ex ante Economic Analysis		9.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		3.0
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		0.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		7.0
5.1 Monitoring Mechanisms		2.5
5.2 Evaluation Plan		4.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Low
Identified risks have been rated for magnitude and likelihood		Yes
Mitigation measures have been identified for major risks		Yes
Mitigation measures have indicators for tracking their implementation		Yes
Environmental & social risk classification		B.13
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit. Procurement: Information System, Price Comparison.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	Mainly ES-T1303; RG-T3488 and RG-T3530. See paragraph 1.15 of the main document and EEO#9 with the detail of technical cooperations that benefit the Executing Agency.

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

Evaluability Assessment Note:

This is a Conditional Credit Line for Investment Projects (CCLIP) for US\$400 million and a first individual operation under the CCLIP of US\$200 million. The objective of the CCLIP is to promote productive activity and social welfare in El Salvador through access to credit in the business and housing sectors, while the general objective of the first individual operation of the CCLIP is to support the sustainability of the Micro, Small and Medium-sized Enterprises (MSMEs) in El Salvador, with a specific objective of promoting the economic recovery of Salvadorian MSMEs. Only 12% of adults in El Salvador have access to credit, compared to 20.8% in the region. MSMEs have low access to credit, with 99% of microenterprises accessing informal loans under usurious financial conditions. Only 4% of loans (and 21% of the portfolio) of the formal financial system are directed to MSMEs. In terms of housing, loans to lower income sectors represent only 13.7% of the portfolio for individuals and 6.5% for households. The first operation will target MSMEs, and in particular support their economic recovery given the crisis caused by the COVID-19 pandemic. The second-tier development bank BANDESAL will channel program resources to intermediary financial institutions (IFIs), on terms and conditions that will allow them to provide loans to MSMEs for working capital, as well as productive investment in fixed assets. The results matrix is consistent with the objectives and activities of the program, by measuring the maintenance of the level of sales and employment percentage of Salvadorian MSMEs as impacts, and measuring the quality of the credit portfolio, leverage and access to credit by MSMEs and women's MSMEs, under results.

The ex-ante economic analysis of the program is appropriate, with reasonable and standard assumptions and with reasonable sensitivity analyses. The net present value of the project is US\$39.1 million (with a discount rate of 12%) and the expected internal rate of return is 20%.

The monitoring and evaluation plan proposes to carry out a reflective analysis of the outcome and impact indicators included in the result matrix, complemented by an ex-post cost-benefit analysis. Additionally, it considers the possible design of an impact evaluation to empirically estimate the impacts on sales income, the percentage of employment and the survival rate of MSMEs.

RESULTS MATRIX

Program objective:	The general objective of the first operation under the CCLIP is to support the sustainability of micro, small, and medium-sized enterprises (MSMEs) in El Salvador by financing second-tier lending for BANDESAL. The specific objective is to foster the economic recovery of Salvadoran MSMEs by providing them access to productive credit for working capital and fixed-asset investments.
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EXPECTED IMPACT

Indicators	Unit of measure	Baseline	Baseline year	Final target (2024)	Means of verification	Comments
GENERAL OBJECTIVE: Support the sustainability of MSMEs in El Salvador by financing second-tier lending for BANDESAL						
Indicator 1: Average sales revenue for MSMEs supported by the program	US\$	138,931	2020	138,931	BANDESAL's Management Information System (SIG) enhanced with data provided by financial institutions.	<p>The baseline includes the weighted average sales revenue based on the portfolio distribution by company size as of 31 March 2020 and the corresponding recorded sales revenue. The same methodology will be used to calculate the monitoring indicator and the target value.</p> <p>A widespread sales revenue decrease is expected for Salvadoran MSMEs because of the COVID-19 crisis. However, during the economic recovery period, MSMEs receiving support from the program are expected to have maintained their average sales revenue level by the end of the operation.</p>
Indicator 2: Jobs at MSMEs because of program lending, as a percentage of total jobs in the country.	%	5.16	2020	5.16	BANDESAL SIG enhanced with data provided by financial institutions; data from the Salvadoran Social Security Institute (ISSS).	<p>The baseline corresponds to the average number of jobs at MSMEs that obtain resources from BANDESAL, averaged for the past five years, compared to total formal jobs as of December 2019, according to the ISSS (875,368). The BANDESAL SIG may include informal jobs. Significantly, according to the Multiple Purpose Household Survey (DIGESTYC), as of 31 December 2018, the economically active population totaled 3,004,990 people. Also, according to the 2017 survey of microenterprises and small business (MSEs) conducted by the National Microenterprises and Small Business Commission (CONAMYPE), jobs in MSEs totaled 854,732.</p> <p>Because of the program, beneficiary MSMEs are expected to maintain their average number of jobs.</p>

EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline	Baseline year	Final target (2024)	Means of verification	Comments
SPECIFIC OBJECTIVE: Foster the economic recovery of MSMEs in El Salvador by providing access to productive credit for working capital and fixed-asset investments						
Indicator 1: Rate of arrears for the MSME financing portfolio for working capital and fixed-asset investments supported with program resources, compared to the average rate of arrears for the financial system.	%	28	2020	28	BANDESAL SIG and data from the Office of the Superintendent of the Financial System (SSF).	<p>Rates of arrears for this indicator will be calculated for a 12-month period.</p> <p>The baseline was calculated with the weighted average rate of arrears reported by the financial institutions that provided lending products for the previous operation with BANDESAL (ES-L1089) as the numerator (1.1%) and the rate of arrears reported for the entire Salvadoran financial system (MSME financing portfolio, broken down by company size) as the denominator (3.9%).</p> <p>The same procedure will be used for indicator monitoring, with the weighted average reported by the financial institutions providing lending products for this operation as the numerator. The financial institutions that access second-tier lending from BANDESAL are expected to follow proper risk management and MSME selection procedures. Therefore, the rates of arrears for their portfolios should be similar to those for the entire system.</p>
Indicator 2: Percentage of medium-term credit (12 months or longer) for the MSME financing portfolio for working capital and fixed-asset investments supported by the program.	%	58.6	2020	58.6	BANDESAL SIG.	<p>The baseline was calculated using the balance of BANDESAL's loan portfolio to finance working capital and fixed-asset investments for MSMEs as of 31 March 2020.</p> <p>Indicator monitoring will be based on the new lending products provided for this portfolio.</p>
Indicator 3: Leveraging of financing resources for working capital and fixed-asset investments achieved by MSMEs because of the program.	%	0	2020	10.7	BANDESAL SIG.	<p>Includes details of resource mobilization with support from the operation. The baseline was calculated with a sample of 10% of BANDESAL's portfolio database as of 31 March 2020 for which data was available, since this is not a mandatory field in credit applications. Because of the program, the leverage level is expected to be maintained.</p>

Indicators	Unit of measure	Baseline	Baseline year	Final target (2024)	Means of verification	Comments
Indicator 4: Amount of the MSME financing portfolio for working capital and fixed-asset investments.	US\$ millions	226.81	2019	358.77	BANDESAL SIG.	<p>The portfolio includes lending for working capital and fixed-asset investments to increase the operational capacity of MSMEs and thus foster their productive activities and recovery.</p> <p>In this portfolio, the average amount for working capital provided to MSMEs is 44.26%, compared to the total amount provided to the MSME segment in the past five years (2015–2019). Based on BANDESAL's commercial product offerings for working capital, the term is up to four years.</p> <p>The baseline was calculated as the total portfolio balance as of December 2019. BANDESAL's internal projections indicate a 30% reduction from the baseline without support from the Bank. The final target was calculated using this estimate and adding the Bank's resources.</p>
Indicator 5: Percentage of medium-term credit (more than 12 months) provided to women-owned MSMEs in the medium-term MSME portfolio.	%	15.5	2020	25	BANDESAL SIG.	<p>Gender monitoring.</p> <p>The definition for women-owned MSMEs is being reviewed with support from a consulting assignment financed with resources from technical cooperation funding RG-T3530.¹ This definition will be shared during the program launch workshop to ensure proper monitoring of the indicator.</p> <p>The baseline was calculated using the percentage of lending products for working capital and fixed-asset investments in BANDESAL's portfolio for women-owned MSMEs compared to all MSMEs as of 31 March 2020.</p> <p>Indicator monitoring will be based on the new lending products provided for this portfolio.</p>

¹ For more details on the consulting assignment, see the [monitoring and evaluation plan](#).

OUTPUTS

Outputs	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification	Comments
Single component: Productive credit (US\$200 million).										
Output 1: Amount provided to MSMEs as productive credit for working capital and fixed-asset investments because of the program.	US\$ million	0	2020	68	46	24	2	140	BANDESAL SIG.	These subloans are intended to finance working capital and fixed-asset investments in the medium and long term, increasing the operational capacity of MSMEs and in turn fostering their productive activities and recovery.
Output 2: Amount provided to women-led MSMEs with program support as productive credit for working capital and fixed-asset investments	US\$ million	0	2020	10	10	10	10	40	BANDESAL SIG.	Pro-gender indicator: The subloans of a second-tier line focused exclusively on financing medium- and long-term working capital and fixed-asset investments for women-led MSMEs to promote their productive activities and recovery.
Output 3: Amount provided to MSMEs to finance investments with potential for climate change mitigation and/or adaptation and environmental sustainability because of the program.	US\$ million	0	2020	2	4	6	8	20	BANDESAL SIG.	The program Credit Regulations include the eligible investments under this definition. Amounts are expected to increase gradually.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	El Salvador
Program:	Conditional Credit Line for Investment Projects (CCLIP) to Facilitate Access to Business and Housing Loans (ES-O0009); First Program of Access to Lending for the Recovery of Micro, Small, and Medium-sized Enterprises (MSMEs) (ES-L1138)
Executing agency:	Banco de Desarrollo de la República de El Salvador (BANDESAL)
Prepared by:	Juan Carlos Lazo, Lead Specialist in Financial Management; and Gumersindo Velázquez, Lead Specialist in Procurement (FMP/CES)

I. EXECUTIVE SUMMARY

- 1.1 BANDESAL is El Salvador's public financial institution for development, having been created upon the entry into force of the Law establishing Banco de Desarrollo de la República de El Salvador of 17 June 2020. BANDESAL's mandate is to support the government's sector public policies with financial resources in order to promote the development of micro, small, and medium-sized enterprises (MSMEs); exports; job creation; and consequently, the country's economic development. The entity has experience executing Bank-financed operations as the executing agency for loan 3271/ES-OC, the Global Credit Loan for Financing Productive Development in El Salvador. In addition, it recently obtained approval to execute loan 4567/GN-ES financed by the Green Climate Fund. This operation presents low fiduciary risk.

II. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 2.1 Given its nature, BANDESAL is not covered by the State Financial Administration Act, nor is it part of the General Budget of the State or required to maintain its budget, cash management, and accounting records in the Integrated Financial Administration System (SAFI). However, BANDESAL has its own reliable rules, procedures, mechanisms, and systems for institutional financial management, as described in the institutional capacity assessment report prepared for loan 4567/GN-ES. This report was recently updated with the relevant modules of the Institutional Capacity Assessment Platform. BANDESAL is subject to oversight and supervision by the Office of the Superintendent of the Financial System (SSF), and to control by the Office of the Auditor General as well as by an external audit firm and a tax auditor, which certify the entity's financial position and the fulfillment of its tax obligations.

- 2.2 BANDESAL is covered under the scope of the Government Procurement Act and has an adequate organizational structure for the management of corporate procurement. The fiduciary evaluation found that BANDESAL has fiduciary management capacity to execute loan ES-L1138.
- 2.3 BANDESAL's budget is reviewed during preparation by the Risk Committee of its Finance and Administration Division, before being submitted to its Board of Directors for subsequent approval by its Board of Governors. Projections are monitored monthly and compared against actual performance in a report submitted to its Board of Directors. Once BANDESAL's budget has been approved by its Board of Governors, appropriations are frozen and entries are made in the cash management and accounting modules of Sistema Banca 2000. This system enables each executed budget item to be recorded and accounted for, and it can also be used as a tool to control programs or lines of credit and allocate quotas and available funds under them. Sistema Banca 2000 is an institutional enterprise resource planning system purchased from an external supplier and is used to manage all BANDESAL operations. It features banking, investment, and debt modules that are fully integrated with accounting and cash management. Specific credit lines can be created in the system to record and track resources under each MSME financing program offered by BANDESAL either directly or through financial institutions, facilitating their identification and control.
- 2.4 BANDESAL policies, procedures, processes, and information systems are clearly defined, and the entity has skilled professional staff supported by functional and reliable information systems as well as by clear work procedures for the performance of their duties.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 Fiduciary risk for the loan operation has been determined to be low, considering the results of the update of the institutional capacity assessment using the relevant modules of the Institutional Capacity Assessment Platform, which was prepared during the first quarter of 2020 (paragraphs 2.1 and 2.2).

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

- 4.1 In addition to the special purpose financial statements for program ES-L1138 that will be audited and submitted annually during the program's execution and disbursement period, BANDESAL will submit the following annually to the IDB: (i) the institution's audited financial statements; and (ii) risk rating reports.

V. PROCUREMENT EXECUTION

- 5.1 The program is structured as a global credit loan. Funds will be provided to BANDESAL to rediscount eligible credit operations for financial institutions, which will onlend these resources to individuals or businesses performing activities that are consistent with the applicable [Credit Regulations](#).
- 5.2 As a demand-driven program with a single component exclusively to finance subloans, there will be no need to procure goods, works, nonconsulting services, or

consulting services as part of execution. No project execution plan or procurement plan is therefore included In this proposal.

- 5.3 **Records and files.** The documentation for the subloans financed by the operation will be kept at the financial institutions that review and approve credit applications, evaluating aspects such as eligibility under the operation as provided in the Credit Regulations. Therefore, these institutions fully assume the credit risk and will be solely responsible for monitoring the portfolio.
- 5.4 BANDESAL's Administrative and Document Management Department will be responsible for keeping program records and files. The official disbursement request forms will be used for program report preparation and record-keeping, listing the subloans subject to rediscount under the program's financing.

VI. FINANCIAL MANAGEMENT

- 6.1 **Programming and budget.** BANDESAL will manage the program budget, applying the mechanisms and procedures used for its own budget, which is prepared annually for the fiscal/financial year beginning on 1 January and ending on 31 December. The programming is reviewed each week on a rolling 12-month forward basis, and projections are monitored each month for submission to its Board of Directors, compared with actual figures. There is an established process for their preparation, approval, and execution. Pursuant to the Financial System Act to Promote Development, the budget will be submitted to its Board of Directors for approval, and subsequently submitted for approval by its Board of Governors. Although unusual for BANDESAL, if the budget requires amendment, the same procedure needs to be followed for approval.
- 6.2 **Accounting and information systems.** Program accounting will be the responsibility of BANDESAL, using its own accounting system, in which accounting and cash operations are integrated and referenced to information from the approved budget. The movement of funds under the program will be shown in BANDESAL's financial statements in expressly assigned accounts. To prepare its financial statements, BANDESAL will apply generally accepted accounting standards for El Salvador and regulations issued by the SSF. The program's special-purpose financial statements will be prepared separately on a cash accounting basis in accordance with the provisions of the Bank's Financial Management Guidelines (document OP-273-12) and the Guide for Financial Reports and Management of External Audits, using information generated by Sistema Banca 2000, which will identify by source code any transactions payable with loan proceeds. The general ledger accounts to be used for program execution and records should be identified, so that the relevant information is clearly and easily identifiable.
- 6.3 **Disbursements and cash flow.** The IDB will disburse resources for operation ES-L1138 in the form of advances, although another disbursement modality may be used upon prior agreement with the Bank. Disbursement requests will be accompanied by a duly supported financial plan based on the requirements of the Credit Regulations. BANDESAL will prepare annual disbursement schedules covering a 12-month rolling period, based on which disbursements will be formulated for periods of six months.

- 6.4 BANDESAL will open a dedicated checking account at the Central Reserve Bank to receive and manage program funds.
- 6.5 **Internal control.** As a public financial institution, BANDESAL applies the technical standards of specific internal control issued under the legislative provisions and the internal and external rules applicable to BANDESAL and the funds it manages and based on the global COSO framework. It has an Audit and Control Division that reports directly to the Board of Directors, as well as an Audit and Control Committee. Additionally, as an autonomous public lending institution, it applies the International Standards for the Professional Practice of Internal Auditing (ISPPIA).
- 6.6 Within its organizational structure, BANDESAL has a Risk Division responsible for the evaluation, monitoring, and supervision of risks generated by its operations, including counterpart risk evaluation for each financial institution in the local financial system.
- 6.7 **External control and reporting.** External control of the program will be performed by an external independent audit firm acceptable to the Bank, to be engaged by BANDESAL. The firm may be the same that audits the entity's financial statements, to gain a comprehensive view of control over the executing agency and program management. The terms of reference will be previously agreed upon with the Bank; the terms of reference and requests for proposals will be subject to the Bank's prior no objection. To ensure the effectiveness of the audit work, the firm will be engaged no later than August of the fiscal year in execution that is to be audited.
- 6.8 **Supervision.** The fiduciary supervision plan mainly includes three activities: (i) external control, as specified in paragraph 6.7; (ii) supervision visits, which will be semiannual and include a review of financial programming, control environment, accounting records, etc.; and (iii) portfolio review, which will include an update of the planning tools based on the semiannual portfolio reviews by the Bank and the Salvadoran government.
- 6.9 **Execution mechanism.** The borrower and executing agency will be BANDESAL, which will carry out the program's technical, financial, and procurement activities. The Funding and Development Management Division of BANDESAL will be responsible for coordinating the arrangements for program execution. A program management team will be established under this division, made up of experienced professionals from the various BANDESAL divisions that will oversee execution. This team's responsibilities will be: (i) execution and supervision of proper use of the loan proceeds; (ii) provision of the human, technological, and budgetary resources necessary for execution, as planned and on schedule; and (iii) delivery to the Bank of the documentation required to satisfy the disbursement conditions and other operational conditions required for execution. BANDESAL will request loan proceeds based on its liquidity needs. Supporting documentation for these needs will follow the provisions of the Credit Regulations. BANDESAL's Funding and Development Management Division will be responsible for the program's fiduciary management.
- 6.10 **Credit Regulations.** The elements mentioned in these fiduciary agreements and requirements will be available in more detail in the program [Credit Regulations](#).
- 6.11 **Retroactive Financing.** The Bank may retroactively finance, from the loan proceeds, subloans issued by financial institutions and eligible expenditures incurred

by the borrower prior to the loan approval date to finance the subloans for the single component for up to US\$40 million (20% of the proposed loan amount), provided that they have met requirements similar to those established in the loan contract. Such expenditures will have been incurred on or after 14 April 2020 (program profile approval date), but in no case may they include expenditures made more than 18 months prior to the loan approval date.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/20

El Salvador. Conditional Credit Line for Investment Projects (CCLIP)
to Facilitate Access to Business and Housing Loans
(ES-O0009)

The Board of Executive Directors

RESOLVES:

1. To authorize the President of the Bank, or such representative as he shall designate, to enter into such agreement or agreements as may be necessary with the Republic of El Salvador to establish a Conditional Credit Line for Investment Projects (CCLIP) to Facilitate Access to Business and Housing Loans (ES-O0009) (the "Line") for an amount of up to US\$400,000,000 chargeable to the resources of the Ordinary Capital of the Bank.

2. To establish that the resources allocated to the Line shall be used to finance individual operations, in accordance with: (a) the objectives and regulations of the Conditional Credit Line for Investment Projects approved by Resolution DE-58/03, as amended by Resolutions DE-10/07, DE-164/07, DE-86/16 y DE-98/19; (b) the provisions set forth in documents GN-2564-3 and GN-2246-13; and (c) the terms and conditions included in the proposal for the corresponding individual operation.

(Adopted on ____ 2020)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-____/20

EL Salvador. Loan ____/OC-ES to Banco de Desarrollo de la República de El Salvador (BANDESAL). First Program of Access to Lending for the Recovery of Micro, Small, and Medium-sized Enterprises (MSMEs). First Individual Operation under the Conditional Credit Line for Investment Projects (CCLIP) ES-O0009

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with Banco de Desarrollo de la República de El Salvador (BANDESAL), as Borrower, and with the Republic of El Salvador, as Guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of the First Program of Access to Lending for the Recovery of Micro, Small, and Medium-sized Enterprises (MSMEs), which constitutes the first individual operation under the Conditional Credit Line for Investment Projects (CCLIP) ES-O0009, approved by Resolution DE-____/20 dated _____, 2020. Such financing will be in the amount of up to US\$200,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2020)