

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

EL SALVADOR

PROGRAM TO SUPPORT THE TECHNOLOGICAL AND DIGITAL TRANSFORMATION OF MSMEs IN EL SALVADOR

(ES-L1163)

LOAN PROPOSAL

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3	Credit Regulations
4	Vertical logic
5	Demand study

ABBREVIATIONS

BANDESAL	Banco de Desarrollo de la República de El Salvador (Development Bank of the Republic of El Salvador)
BCR	Central Reserve Bank of El Salvador
CCLIP	Conditional credit line for investment projects
CNIEF	Consejo Nacional de Inclusión y Educación Financiera (National Council for Financial Inclusion and Education)
CONAIPD	Consejo Nacional de Atención Integral a la Persona con Discapacidad (National Council for Comprehensive Care for Persons with Disabilities)
CONAMYPE	Comisión Nacional de la Micro y Pequeña Empresa (National Commission for Microenterprise and Small Business)
FSV	Fondo Social para la Vivienda (Low-income Housing Fund)
FUSADES	Fundación Salvadoreña para el Desarrollo Económico y Social (Salvadoran Foundation for Economic and Social Development)
IMF	International Monetary Fund
MSME	Micro, small, and medium-sized enterprise
OECD	Organisation for Economic Co-operation and Development
SIG	Management Information System of BANDESAL
SIP	Secretaría de Innovación de la Presidencia (Secretariat for Innovation of the Presidency)
SSF	Superintendencia del Sistema Financiero (Office of the Superintendent of the Financial System)
UNFPA	United Nations Population Fund

PROJECT SUMMARY

EL SALVADOR PROGRAM TO SUPPORT THE TECHNOLOGICAL AND DIGITAL TRANSFORMATION OF MSMEs IN EL SALVADOR (ES-L1163)

Financial Terms and Conditions						
Borrower:			Flexible Financing Facility^(a)			
Development Bank of the Republic of El Salvador (BANDESAL)			Amortization period:	23.5		
Guarantor:						
Republic of El Salvador						
Executing agency:			Disbursement period:	6 years		
BANDESAL			Grace period:	7 years ^(b)		
Source	Amount (US\$)	%	Interest rate:		SOFR-based	
IDB (Ordinary Capital):^(f)	130 million	100	Credit fee:		^(c)	
			Inspection and supervision fee:		^(c)	
Total:	130 million	100	Weighted average life:		15.25 years	
			Approval currency:		U.S. dollar	
Project at a Glance						
Program objective/description: The general development objective is to help increase the adoption of technological and digital transformation among micro, small, and medium-sized enterprises (MSMEs) in El Salvador. The specific development objective is to promote investment in technological and digital transformation through financing for MSMEs.						
Special contractual conditions precedent to the first disbursement of the loan proceeds: A special contractual condition precedent to the first disbursement of the loan proceeds is the approval by BANDESAL of the Credit Regulations for this program, under terms previously agreed on with the Bank, including socioenvironmental issues based on the environmental and social review summary (paragraph 3.9).						
Special contractual conditions for execution: BANDESAL pledges to ensure that the eligible financial intermediaries implement a program to raise the awareness of sub-borrowers on: (i) financial literacy and inclusion; (ii) digital literacy and inclusion; and (iii) cybersecurity risks and good practices, in order to promote the secure adoption of technology (paragraph 3.10).						
Exceptions to Bank policy: A partial waiver of the Policy on Guarantees Required from the Borrower (OP-303) is requested, so the Republic of El Salvador will only guarantee the financial obligations under the loan contract signed by the Bank and BANDESAL (paragraph 3.11).						
Strategic alignment						
Objectives:^(d)	O1 <input type="checkbox"/>		O2 <input type="checkbox"/>		O3 <input checked="" type="checkbox"/>	
Operational Focus Areas:^(e)	OF1 <input type="checkbox"/>	OF2-G <input checked="" type="checkbox"/> OF2-D <input checked="" type="checkbox"/>	OF3 <input checked="" type="checkbox"/>	OF4 <input type="checkbox"/>	OF5 <input checked="" type="checkbox"/>	OF6 <input checked="" type="checkbox"/> OF7 <input type="checkbox"/>

^(a) Under the terms of the Flexible Financing Facility (FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, commodity, and catastrophe protection conversions. The Bank will take 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) O1 (Reduce poverty and inequality); O2 (Address climate change); and O3 (Bolster sustainable regional growth).

^(e) OF1 (Biodiversity, natural capital, and climate action); OF2-G (Gender equality); OF2-D (Inclusion of diverse population groups); OF3 (Institutional capacity, rule of law, and citizen security); OF4 (Social protection and human capital development); OF5 (Productive development and innovation through the private sector); OF6 (Sustainable, resilient, and inclusive infrastructure); OF7 (Regional integration).

^(f) Pursuant to document AB-2990, the disbursement of the loan proceeds will be subject to the following restrictions: (i) a maximum of 15% in the first 12 months; (ii) a maximum of 30% in the first 24 months; and (iii) a maximum of 50% in the first 36 months, counted in all instances from the date the loan operation is approved by the Bank's Board of Executive Directors (paragraph 2.2).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **Macroeconomic context.** According to the Central Reserve Bank of El Salvador (BCR),¹ between 2010 and 2022, the country's GDP grew by 2.4%.² GDP fell 7.9% in 2020 due to the pandemic but rose by 11.9% in 2021, 2.8% in 2022, and 3.5% in 2023 (according to the International Monetary Fund (IMF), the latter was 3%). For 2024, the IMF projects GDP growth of 3%, while local authorities estimate a range of 3.0%-3.5%. A downward trend in inflation is expected to continue in 2024, with the BCR forecasting a range of 1% to 1.5% and the IMF, 2.0%.³ Despite recent improvements in economic growth, El Salvador continues to grow slower than the rest of the Central American, Panama, and Dominican Republic region (4.2% in 2023).
- 1.2 **Economic growth is limited by low levels of investment and productivity, which are particularly pronounced among micro,⁴ small,⁵ and medium-sized⁶ enterprises (MSMEs).** Between 2012 and 2023, total investment (public and private) averaged 18% of GDP, but remained below the average for the Latin American and Caribbean region (20%).⁷ Moreover, contribution to productivity, measured as total factor productivity, has been negative.⁸ Low productivity is particularly pronounced among MSMEs: despite accounting for more than 90% of the business sector and 60% of total jobs, these businesses only generate 30% of GDP and 15% of exports.⁹ This share of exports (15%) is lower than for the Central American countries analyzed and less than half of the regional average (33%).¹⁰ The low productivity of Salvadoran MSMEs poses a challenge that needs to be addressed within the Fourth Industrial Revolution, which threatens to eliminate jobs in low-value productive activities and create jobs in higher value ones, such as those facilitated by technological and digital transformation.¹¹

¹ [BCR](#), 2024.

² [BCR](#), 2024.

³ [IMF](#), 2023.

⁴ 1-10 employees.

⁵ 11-50 employees.

⁶ 51-250 employees.

⁷ [IMF](#), 2024.

⁸ Total factor productivity had a negative impact of 0.6 of a percentage point on growth. In contrast, the highest source of growth was the labor force, which contributed 1 percentage point, followed closely by human capital and physical capital, which contributed 0.9 of a percentage point. [World Bank](#), 2021. [Hofman et al.](#), 2017. [ATN/OC-15810-RG](#).

⁹ [Latin American and Caribbean Economic System](#), 2021.

¹⁰ [International Center for Research and Development](#), 2021.

¹¹ [Salvadoran Foundation for Economic and Social Development \(FUSADES\)](#), 2020.

1.3 One of the main problems¹² associated with low productivity among MSMEs is their low level of adoption of technological and digital transformation.^{13,14}

The Digital Maturity Index of Salvadoran MSMEs (0.23 out of 1) is the third lowest among the 17 Latin American countries analyzed, ahead only of Nicaragua (0.06) and Guatemala (0.17).¹⁵ Specifically, Salvadoran MSMEs have low levels of adoption of: computers (70%), fixed broadband (40%),^{16,17} training in technological and digital transformation (30%), cloud services (26.3%), computer programs as a service (13.8%), online marketing (12.1%), and automated customer relationship management (4%). Human capital constraints are a particularly relevant barrier to the adoption of technological and digital transformation among Salvadoran MSMEs. El Salvador ranks 92nd out of 194 countries in the development of digital skills in the education system.¹⁸ Students graduating from four- and five-year degree programs in engineering and technology only account for 15% of graduates, compared with 65% from humanities and social sciences. There are also many shortcomings in education quality in mathematics and science (ranked 132nd out of 141 countries in the Global Competitiveness Index).¹⁹ These gaps in the development of digital skills in the education system translate into a lack of human talent for technological and digital transformation, as demonstrated by the following: (i) more than 20% of businesses identify the lack of technical skills to adopt and operate digital technologies as an obstacle for technological and digital transformation;²⁰ (ii) the demand for highly skilled professionals in digital technologies exceeds the supply;²¹ and (iii) microenterprises struggle to pay the salaries of qualified job candidates, while small and medium-sized enterprises report the lack of highly trained professionals as the main obstacle in adopting technological and digital transformation.²²

1.4 One of the main reasons²³ for the low adoption of technological and digital transformation among MSMEs is the lack of resources and financing to invest in this transformation.²⁴ Although 48% of Salvadoran MSMEs plan to

¹² Constraints such as access to and dissemination of technological and digital transformation; business momentum; participation of MSMEs in technological and digital transformation; training; transportation connectivity; and competition in the digital economy.

¹³ For the purposes of program documents, technological and digital transformation includes all factors needed for this transformation to be effective, including both equipment (e.g. hardware, software, and cybersecurity) and qualified human capital to maximize its use and impact.

¹⁴ [Organisation for Economic Co-operation and Development \(OECD\)](#), 2019.

¹⁵ [Latin American and Caribbean Economic System](#), 2021.

¹⁶ The country has low Internet penetration: the number of wired broadband lines as a percentage of the population is 7.67%, compared with 13.01% in the region and 33.74% in OECD countries. A determining factor is the lack of affordability, since the share of average wages for 40% of the low-income population needed to pay for a fixed broadband (29%) and mobile (7%) subscription is above that of Latin America and the Caribbean (23% and 5%) and (2% and 2%). [Digilac](#), 2022.

¹⁷ [IDB](#), 2023.

¹⁸ [IDB](#), 2024.

¹⁹ [World Economic Forum](#), 2020.

²⁰ [World Bank](#), 2022.

²¹ [World Bank](#), 2022.

²² [International Finance Corporation](#), 2021.

²³ For example, constraints related to capacity, knowledge, information, and trust.

²⁴ [FUSADES](#), 2023.

invest in technological and digital transformation,²⁵ the percentage that are able to execute these investments is much lower: (i) only approximately 5% of microenterprises, 10% of small businesses, and 25% of medium-sized enterprises (compared with 45% of large companies) invest in computers; and (ii) only approximately 2% of microenterprises, 5% of small businesses, and 15% of medium-sized enterprises (compared with 25% of large companies) invest in software.²⁶ A determining factor of the gap between intention and execution of investments in technological and digital transformation²⁷ is that some MSMEs in Latin America and the Caribbean—including from El Salvador—face a market failure that limits their access to finance. This means that there are MSMEs that could obtain financing in a perfectly functioning market but do not, due to information asymmetries resulting from: (i) the lack of transparency of information from MSMEs;^{28,29} and (ii) the lack of financial statements, financial audits, tax returns, or publicly available contracts with staff and suppliers.^{30,31} In addition, most MSMEs lack collateral to offset inherent information asymmetries.³²

- 1.5 **The limited access to finance for MSMEs is the main market failure that the program seeks to address.** Salvadoran MSMEs face a financing gap of US\$10 billion³³ because they have suboptimal access to credit from commercial banks:³⁴ (i) only 29% of MSMEs have lines of credit or loans;³⁵ (ii) 56% of MSMEs consider obtaining access to credit to be very difficult;³⁶ (iii) loans to MSMEs account for only 4% of the financial system's total credits; and (iv) the lending balance for MSMEs accounts for only 22% of the system's total lending balance.³⁷ The smallest MSMEs³⁸ face particularly limited access to finance: (i) the main problem for microenterprises and small businesses is the lack of working capital (22%), with only 21% of them obtaining credit, 54% from outside the regulated financial system;³⁹ (ii) 80% of microenterprises and small businesses obtain credit under unfavorable conditions from the unregulated financial sector;⁴⁰ and (iii) 99%

²⁵ [MSME Observatory](#), 2023.

²⁶ [Lemus and Villatoro](#), 2009.

²⁷ The gap between intention and execution of investments in technological and digital transformation reflected in the referenced literature matches the findings of the recent demand study conducted to inform the design of this program. This study shows that, currently, only approximately 30% of the demand for financing from Salvadoran MSMEs to invest in technological and digital transformation is being met (paragraph 1.6) ([optional link 5](#)).

²⁸ [Berger and Udell](#), 1998.

²⁹ [Cassar](#), 2004.

³⁰ [Carpenter and Peterson](#), 2002.

³¹ Long-Term Financing Sector Framework Document (GN-2768-12).

³² [Avery et al.](#), 1998.

³³ [IDB](#), 2022.

³⁴ [International Labour Organization](#), 2020.

³⁵ [BCR](#), 2019.

³⁶ [BCR](#), 2019.

³⁷ [Office of the Superintendent of the Financial System \(SSF\)](#), 2021.

³⁸ Microenterprises and small businesses.

³⁹ [National Commission for Microenterprise and Small Business \(CONAMYPE\)](#), 2017.

⁴⁰ [Salvadoran Bank Association](#), 2022.

of Salvadoran microenterprises obtain informal credit under usurious financial terms.⁴¹

- 1.6 **There is proven demand for financing from MSMEs to invest in technological and digital transformation.** According to the demand study conducted for program preparation, the financing needs of Salvadoran MSMEs to invest in technological and digital transformation are estimated to total US\$200.1 million per year from 309,808 MSMEs. The MSMEs interested in having access to finance to invest in technological and digital transformation can be classified, by size, as follows: (i) 10.4% are microenterprises; (ii) 47.5% are small businesses; and (iii) 42.1% are medium-sized enterprises. By economic activity, they can be described as follows: (i) 27.3% commerce; (ii) 21.5% services; (iii) 15.6% construction; (iv) 9.6% manufacturing industry; (v) 6.9% electricity, gas, water, and sanitation services; (vi) 3.3% transportation, storage, and communication; (vii) 2.5% agriculture; and (viii) 13.3% other. By type of technological and digital solution, MSMEs invest in the following: (i) 78% in computer equipment; (ii) 48% cloud storage; (iii) 43% videoconferencing software; and (iv) 22% software for collaborative work. The financing gap for technological and digital transformation is estimated at 3.2 times the current level of credit. Lastly, as a result of the analysis, the maximum amount of financing demanded by the average MSME was estimated at approximately US\$1 million ([optional link 5](#)).
- 1.7 **Gender context.** Women's MSMEs face various barriers in their digital transformation process. These include: (i) limited access to finance, which restricts their capacity to implement digital technologies in their businesses; (ii) the lack of knowledge and training to leverage digital tools; (iii) the high costs of digital technologies and platforms; and (iv) the presence of insecure digital environments.⁴² Meanwhile, it is important to understand the sectoral concentration of women's businesses and their likelihood to request or include digital transformation processes: only 8% of women-owned microenterprises and small businesses are in the industry sector, and the commerce sector has the highest concentration at 64%.⁴³ In El Salvador, women tend to work in sectors with lower Internet use, such as commerce and smaller companies.⁴⁴ For many women, incorporating technology into their businesses helps them strike a work-family balance; this indicates that expanding access and training in the effective use of technology could increase women's participation in the market.⁴⁵ Estimates⁴⁶ show that only 23.8% of companies are majority women-owned and 25.6% have a woman general manager. There is a gap of more than 8 percentage points in access to credit for women-owned businesses compared with men-owned (49.2% versus 57.5%), with a lower percentage of women financing their investments through banks compared with men (28.2% versus 42.5%).⁴⁷ Currently, no countrywide information is available about the percentage of women-owned

⁴¹ [Salvadoran Bank Association](#), 2019.

⁴² [Visa Economic Empowerment Institute](#), 2022.

⁴³ [CONAMYPE](#), 2017.

⁴⁴ [FUSADES](#), 2023.

⁴⁵ [Visa Economic Empowerment Institute](#), 2022.

⁴⁶ [World Bank](#), 2023.

⁴⁷ [World Bank](#), 2023.

businesses applying for financing for digital transformation. Technological and digital transformation among women-owned MSMEs is lower than for men-owned MSMEs, as seen in the following differences: (i) email (76.3% versus 80%); (ii) online presence (57.9% versus 68.2%); (iii) promotion of products or services through digital media (50.9% versus 69.1%); (iv) sales through digital media (45.6% versus 54.5%); (v) electronic banking (50% versus 64.5%); and (vi) online payments (45.6% versus 60.9%).⁴⁸

- 1.8 **Diversity context.** On diversity, specifically for persons with disabilities, data⁴⁹ shows that 6.4% of El Salvador's population have disabilities, with 45% of them being of working age (ages 19 to 64). They face barriers such as financial exclusion (credit) and exclusion from technological and digital transformation (devices and platforms). Among persons with disabilities, 24.2% reported it is difficult to understand messages on the Internet, and 27.4% reported difficulties entering or navigating inside banks or financial institutions.⁵⁰ In economic terms alone, available global data suggest that the exclusion of persons with disabilities represents a loss to countries of 3% to 7% of GDP.⁵¹ There are currently no data available about the number of persons with disabilities who own or run businesses, or for persons with disabilities (individuals and businesses) accessing financial services in El Salvador. This also applies to technological and digital transformation. The literature⁵² highlights that promoting access to finance for persons with disabilities is essential to ensure their right to equality and nondiscrimination and to increase the demand for financial products among this group. In addition, for intermediary financial institutions (hereinafter financial intermediaries), this represents an opportunity for differentiation that would give them a competitive advantage, enabling them to attract a market that is usually ignored and to achieve higher levels of satisfaction among their customers.⁵³ It is important to work with financial intermediaries to raise awareness of the significance of including these populations. The United Nations Population Fund (UNFPA)⁵⁴ identifies the following among the main structural barriers that persons with disabilities face: (i) financial exclusion, with an emphasis on credit; and (ii) digital exclusion due to the lack of adaptive devices and platforms. In response, El Salvador enacted a Special Law for the Inclusion of Persons with Disabilities, establishing that public institutions will facilitate financial support to strengthen this population's business and productive initiatives.⁵⁵ Through interagency cooperation agreements, the country has also proposed the design of mechanisms that facilitate access to financial services and standardize criteria to serve this population.⁵⁶ Inclusion and financial assistance for the development of business

⁴⁸ [FUSADES](#), 2023.

⁴⁹ [National Council for Comprehensive Care for Persons with Disabilities \(CONAIPD\)](#), 2015.

⁵⁰ [CONAIPD](#), 2015.

⁵¹ [World Bank](#), 2021.

⁵² [United Nations](#), 2020.

⁵³ [National Banking and Securities Commission of Mexico and Deutsche Gesellschaft für Internationale Zusammenarbeit \(GIZ\)](#), 2023.

⁵⁴ [UNFPA](#), 2023.

⁵⁵ Article 70 of the law. [CONAIPD](#), 2022.

⁵⁶ [BANDESAL](#), 2022.

ventures become relevant considerations in narrowing the gaps that persons with disabilities face.⁵⁷

- 1.9 **Empirical evidence.** Technological and digital transformation changes the way that businesses operate and innovate,⁵⁸ as a result of digital connectivity⁵⁹ and new disruptive technologies that evolve at an exponential pace.⁶⁰ Therefore, the adoption of technological and digital transformation enables and accelerates technology development and innovation to sustainably improve productivity by optimizing productive processes and the development of new competitive advantages.⁶¹ This is demonstrated by the following: (i) public development banks provided financing to 405,000 MSMEs, creating 900,000 jobs in Nigeria;⁶² (ii) 41.3% of small and medium-sized enterprises that underwent technological innovations in Turkey saw their operational efficiency increase 96.9%;⁶³ (iii) a 1% increase in the digitalization rate increased GDP by 0.32% in Latin America;⁶⁴ (iv) 40% of Central American microenterprises and small businesses that have made progress in technological and digital transformation have boosted productivity; (v) after making progress in their technological and digital transformation during the pandemic, Salvadoran microenterprises and small businesses increased online sales by 65%;⁶⁵ and (vi) in El Salvador, broadband increases income by 3.11% and boosts formal employment by 4.13%, although it is important to strengthen digital skills to maximize these impacts.⁶⁶
- 1.10 **The country's legal, institutional, and strategic framework.** BANDESAL is an autonomous public credit institution with an indefinite term of existence, independent legal status, and its own assets. It was established through Legislative Decree 847 of 22 September 2011, which includes the BANDESAL Law,⁶⁷ and coordinated through its 2023-2025 Institutional Strategic Plan.⁶⁸ BANDESAL is overseen by the Office of the Superintendent of the Financial System (SSF), the financial market's regulator,⁶⁹ under the Financial System Oversight and Regulation Law.⁷⁰ BANDESAL also complies with the regulations issued by the Central Reserve Bank of El Salvador (BCR), which is responsible for monetary policy, exchange control, and financial supervision,⁷¹ under the Central Reserve Bank of El Salvador Organizational Law.⁷² In addition, the National

⁵⁷ [UNFPA](#), 2023.

⁵⁸ [IDB](#), 2018.

⁵⁹ [McKinsey](#), 2017.

⁶⁰ [IDB](#), 2018.

⁶¹ [IDB](#), 2016.

⁶² [Business Day](#), 2024.

⁶³ [Business Day](#), 2024.

⁶⁴ [Latin American Center for Telecommunications Studies](#), 2018.

⁶⁵ [MSME Observatory](#), 2023.

⁶⁶ [IDB](#), 2022.

⁶⁷ [BANDESAL](#), 2022.

⁶⁸ [BANDESAL](#), 2024.

⁶⁹ [SSF](#), 2024.

⁷⁰ [SSF](#), 2011.

⁷¹ [BCR](#), 2024.

⁷² [BCR](#), 1991.

Council for Financial Inclusion and Education (CNIEF), established through Executive Decree 28 of 2019 on 18 October 2019,⁷³ monitors implementation of the National Policy for Financial Inclusion⁷⁴ and the National Strategy for Financial Education.⁷⁵ Lastly, the National Commission for Microenterprise and Small Business (CONAMYPE), an autonomous entity established through Legislative Decree 838 amending the Law for the Promotion, Protection, and Development of Microenterprises and Small Businesses,⁷⁶ promotes the execution of the National Policy for the Development of Microenterprises and Small Businesses.⁷⁷

- 1.11 **Strategic framework for the technological and digital transformation of MSMEs in El Salvador.** Various public institutions in the country design and execute public policies focused on promoting the adoption of technological and digital transformation by MSMEs. First, the Ministry of Economy is implementing the Ruta Digital (Digital Route) initiative—promoted by the Bank throughout Latin America and the Caribbean—so that MSMEs find out their level of digital maturity and identify priority areas for investment in technological and digital transformation.⁷⁸ Second, CONAMYPE created an Innovation Center to promote technology and innovation in various products from microenterprises and small businesses that have an impact on national and international markets.⁷⁹ Lastly, the Secretariat for Innovation of the Presidency (SIP) is leading the El Salvador’s 2020-2030 Digital Agenda, which includes promoting employability, e-commerce, and education in technology.⁸⁰
- 1.12 **Program rationale and strategy.** In line with the objective of the IDB Institutional Strategy of bolstering sustainable regional growth (paragraph 1.19), the program involves financing and technical support for technological and digital transformation. Therefore, it embodies recommendations to create more and better opportunities from the FUSADES Business Competitiveness Survey, including: (i) increasing public funds to support innovation to develop new and improved production processes and products, since 90% of the 60% of industries that were able to innovate had to finance it with their own funds; and (ii) increasing public funds to support training in new skills for the Fourth Industrial Revolution, since 91% of the 53% of companies that were able to train their personnel had to finance it with their own funds.⁸¹ The program will also consolidate the focus on financing for MSMEs owned and/or run by women, as well as conducting a pilot project to finance MSMEs owned and/or run by persons with disabilities, which is an institutional priority not only for BANDESAL but all government entities.⁸²

⁷³ [CNIEF](#), 2019.

⁷⁴ [CNIEF](#), 2021.

⁷⁵ [BCR](#), 2022.

⁷⁶ [CONAMYPE](#), 2024.

⁷⁷ [CONAMYPE](#), 2022.

⁷⁸ [Ministry of Economy](#), 2024.

⁷⁹ [CONAMYPE](#), 2022.

⁸⁰ [SIP](#), 2024.

⁸¹ [FUSADES](#), 2020.

⁸² [BANDESAL](#), 2022.

1.13 **Value added by the IDB Group.** Through various IDB Group units, technical support has been provided to: (i) MSMEs to (a) develop a data economy that promotes their innovation and competitiveness,⁸³ (b) support their business, management, and technological transformation when they obtain credit,⁸⁴ (c) strengthen their skills and facilitate their applications for financing from banks, to carry out more and better international trade and investment transactions,⁸⁵ and (d) digitalize sales, payments, and distribution;⁸⁶ (ii) workers to improve digital skills;⁸⁷ (iii) older adults to establish entrepreneurial business ventures;⁸⁸ (iv) public institutions to (a) strengthen capacities to support the digital transformation of MSMEs,⁸⁹ (b) financially structure investment projects to narrow the digital gap,⁹⁰ (c) design and implement public policies for digital inclusion,⁹¹ (d) develop policies to promote digital sales from MSMEs,⁹² and (e) strengthen capacities to promote the development of digital infrastructure;^{93,94} and (v) BANDESAL to (a) strengthen and scale its second-tier business lending for production,⁹⁵ (b) promote expanded access to medium- and long-term credit for production for MSMEs,⁹⁶ (c) address technical and information barriers to finance technology investment projects,⁹⁷ (d) strengthen second-tier lending for financial inclusion,⁹⁸ (e) strengthen its capacity for scaling access to credit for MSMEs,⁹⁹ and (f) strengthen its capacity by gathering experiences and best practices from Colombia and Mexico.¹⁰⁰ As a result of this extensive experience with technical cooperation funding, since 2015, the IDB Group has contributed substantial value added to various actors in the MSME sector in El Salvador, with a programmatic approach based on the Bank's long-term vision for this sector. This process created suitable conditions for MSMEs to develop growing, sustained demand for investments in technological and digital transformation, as well as for BANDESAL to build the institutional capacities needed to expand its activities in the second-tier financial market to a new segment, namely technological and digital transformation (for which BANDESAL currently does not have a specific line of credit or portfolio). Meanwhile, BANDESAL continues to work on the inclusion, both financial and digital, of women and persons with disabilities (paragraph 1.21), with

⁸³ [ATN/FG-19205-RG](#) for US\$400,000 for client support, approved in 2022.

⁸⁴ [ATN/ME-17758-ES](#) for US\$450,000 for client support, approved in 2019.

⁸⁵ [ATN/CF-17345-RG](#) for US\$305,500 for research and dissemination, approved in 2019.

⁸⁶ [ATN/OC-16243-RG](#) for US\$250,000 for client support, approved in 2017.

⁸⁷ [ATN/OC-18437-ES](#) for US\$250,000 for client support, approved in 2020.

⁸⁸ [ATN/OC-20181-ES](#) for US\$384,000 for client support, approved in 2023.

⁸⁹ [ATN/OC-18775-RG](#) for US\$270,000 for research and dissemination, approved in 2021.

⁹⁰ [ATN/OC-17689-RG](#) for US\$800,000 for client support, approved in 2019.

⁹¹ [ATN/FG-18628-RG](#) for US\$2.5 million for operational support, approved in 2021.

⁹² [ATN/OC-19926-RG](#) for US\$250,000 for research and dissemination, approved in 2023.

⁹³ [ATN/FI-20568-RG](#) for US\$75,000 for research and dissemination, approved in 2023.

⁹⁴ [ATN/OC-20569-RG](#) for US\$175,000 for research and dissemination, approved in 2023.

⁹⁵ [ATN/OC-18560-RG](#) for US\$300,000 for operational support, approved in 2021.

⁹⁶ [ATN/OC-20001-ES](#) for US\$150,000 for operational support, approved in 2023.

⁹⁷ [ATN/GN-17930-ES](#) for US\$1.7 million for operational support, approved in 2020.

⁹⁸ [ATN/OC-17746-ES](#) for US\$150,000 (fully disbursed) for operational support, approved in 2019.

⁹⁹ [ATN/OC-17576-ES](#) for US\$17,535 (fully disbursed) for client support, approved in 2019.

¹⁰⁰ [ATN/OC-15154-ES](#) for US\$15,000 (fully disbursed) for client support, approved in 2015.

complementary support from technical cooperation operations (paragraph 1.25) for the execution of this innovative program.

- 1.14 **The Bank's experience and programmatic support in the sector and the country.** In addition to the value added by the IDB Group through strictly technical support (paragraph 1.13), the Bank has also provided support with loan instruments to: (i) BANDESAL to (a) increase the availability of adequate financing that enables higher investments in energy efficiency,¹⁰¹ (b) expand access to medium- and long-term production-oriented credit for MSMEs,¹⁰² (c) promote the post-pandemic economic recovery of MSMEs through production-oriented credit for working capital and fixed-asset investments,¹⁰³ and (d) increase the availability of adequate financing for investments in energy efficiency;¹⁰⁴ and (ii) public institutions to improve access to digital infrastructure and narrow the digital skills and competencies gap.¹⁰⁵ Among the results of these recent successful operations, the following achievements are noteworthy: (i) financing for 15,000 MSMEs by leveraging private resources; (ii) improved financing for 3,000 MSMEs; and (iii) financing for 5,000 MSMEs, increasing sales by 25% and rescuing 7,000 jobs.
- 1.15 **Lessons learned.** The operation incorporates lessons learned from similar projects ([5083/OC-ES](#), [4567/GN-ES](#), [5340/OC-ES](#), and [5341/KI-ES](#)), such as: (i) conducting a demand study provides knowledge about the barriers and needs for financing among MSMEs (paragraph 1.6); (ii) providing technical support to MSMEs and financial intermediaries through technical cooperation operations helps to understand the technological and digital transformation to be financed (paragraph 1.25); (iii) providing financing for investment in technological and digital transformation addresses the significance of digitalization as a catalyst for economic development (paragraph 1.23); (iv) providing financing for investment in technological and digital transformation addresses the need for a level of infrastructure and digital skills development that accelerates access, adoption, and continuity of digital and technical services (paragraph 1.23); and (v) selecting MSMEs as the program's end beneficiaries addresses the need to obtain support from the private sector for program sustainability (paragraph 1.26). In addition, the operation incorporates the lessons learned while executing technical cooperation operation [ATN/OC-18775-RG](#) in El Salvador, aligned with the findings from recent studies on the impact of technological and digital transformation in the country (paragraph 1.9). These include the importance of making training in digital and technical skills part of investments in technological and digital transformation.

¹⁰¹ Financing Energy Efficiency in Small Businesses and Medium-sized Enterprises ([4977/OC-ES](#) for US\$20 million, 85.49% disbursed, approved in 2020).

¹⁰² Access to Credit Program for Micro, Small, and Medium-sized Enterprises (MSMEs) ([5733/OC-ES](#) for US\$100 million, 25.5% disbursed, approved in 2023).

¹⁰³ First Program of Access to Lending for the Recovery of Micro, Small, and Medium-sized Enterprises (MSMEs) ([5083/OC-ES](#) for US\$200 million, fully disbursed, approved in 2020).

¹⁰⁴ Global Credit Loan for Financing Energy Efficiency in Small and Medium-sized Enterprises ([4567/GN-ES](#) for US\$20 million, 95% disbursed, approved in 2018).

¹⁰⁵ Social Digital Connectivity Program ([5340/OC-ES](#), [5341/KI-ES](#) for US\$85 million, 11.41% disbursed, approved in 2021; [GRT/ER-19647-ES](#) for US\$6.4 million, 13.85% disbursed, approved in 2022; [GRT/ER-20154-ES](#) for US\$10.2 million, pending legislative approval, approved in 2023).




Accordingly, the program includes financing for training, certifications, and working capital associated with this transformation (paragraph 3.8).

- 1.16 **Complementarity with other IDB Group operations in the country.** Limited access to credit remains a significant barrier to growth and development in El Salvador. Factors such as informal work, lack of collateral, and information asymmetry hinder private financing, particularly for MSMEs and the low-income housing sector, prompting public development banks to play a key role in mitigating these market failures. In this context, throughout the last decade, the Bank has supported BANDESAL and the Low-income Housing Fund (FSV) in rolling out innovative financial instruments such as guarantee funds, social mortgages, and green lines of finance (paragraphs 1.13, 1.14, 1.17, and 1.18), to close financing gaps in the MSME and low-income housing segments. This operation is part of a package of three new inter-related interventions designed to be executed independently (ES-L1162, ES-L1163, and ES-L1165) that take this strategic approach, continuing support for BANDESAL and the FSV in developing new financing instruments. This shared approach makes it possible to provide a coordinated response to the needs of El Salvador's financial sector, with public banks as the cornerstone, maximizing the programmatic impact while also addressing specific sectoral circumstances in each of the interventions, given that all three: (i) address different sectors and types of beneficiaries, with demand maturing over different periods and with different conditions for meeting demand (paragraphs 1.23 and 1.26); and (ii) have differentiated execution mechanisms and different strategic partners (paragraphs 3.1, 3.3, and 3.4).
- 1.17 Likewise, the program is expected to have synergies with other IDB Group operations in the country, by facilitating investment in and adoption of technological and digital transformation. This helps increase efficiency and productivity in the products and services that MSMEs deliver to value chains in sectors supported by other operations, such as: (i) Trade Facilitation and Port Operation Modernization Program in El Salvador ([5851/OC-ES](#) for US\$84 million, no disbursements recorded to date, approved in 2024); (ii) Program to Support the Recovery and Expansion of the Tourism Sector in El Salvador ([5590/OC-ES](#) for US\$106 million, 7.45% disbursed, approved in 2022); (iii) Improving Education Coverage and Quality: Birth, Growth, Learning ([5080/OC-ES](#) for US\$100 million, 29.3% disbursed); (iv) Social Digital Connectivity Program ([5340/OC-ES](#), [5341/KI-ES](#)), ([GRT/ER-19647-ES](#)), and ([GRT/ER-20154-ES](#)); and (v) Program for Development of Data Infrastructure in El Salvador with SIP for digital data infrastructure (in preparation).
- 1.18 **Coordination with the IDB Group.**¹⁰⁶ IDB Lab and the Bank have supported Salvadoran MSMEs to determine their demand for investment in technological and digital transformation (paragraph 1.13). The IDB has also supported BANDESAL, technically and financially, to develop pioneering solutions such as technological and digital transformation (paragraph 1.13). Recently, IDB Invest supported one of the largest Salvadoran financial intermediaries to begin financing investments in

¹⁰⁶ While collaboration with other multilateral development banks and donors is not anticipated, this program is expected to have demonstration effects that facilitate mobilization from other multilateral development banks and donors to enable future interagency collaboration.

technological and digital transformation for medium-sized and large enterprises.¹⁰⁷ These financial intermediaries and larger companies whose financial conditions are sufficiently attractive to become beneficiaries of IDB Invest programs generally do not need support from public policy programs executed by public development banks like BANDESAL. However, MSMEs, particularly smaller businesses (paragraph 1.5) and those owned and/or run by women (paragraph 1.7) and persons with disabilities (paragraph 1.8) still need adequate financing from financial intermediaries to be able to invest in technological and digital transformation (paragraph 1.4). The program will address this with financial intermediation through a public development bank (BANDESAL) to facilitate eligible subloans to finance technological and digital transformation (paragraph 3.8), and therefore make progress toward the objective of increasing the adoption of this transformation (paragraph 1.22). The program can potentially provide support: (i) financially through eligible financial intermediaries (paragraph 3.6) to MSMEs that are beneficiaries of technical support from IDB Lab and the Bank (paragraph 1.13); and (ii) technically, with resources from a technical cooperation operation complementary to the loan (paragraph 1.25) to strengthen the capacity of small and medium-sized enterprises in El Salvador for technological and digital transformation, improve their credit quality, and therefore improve access to other sources of finance, including IDB Invest. In addition, content and lessons learned from the program’s training and pilot projects for gender and diversity will be shared within the IDB Group. Figure 1 below illustrates the coordination among IDB Group institutions for this operation.¹⁰⁸

Figure 1. Internal coordination of the IDB Group in the context of the program

 BID LAB	 BID	 BID Invest
IFI: no reguladas, banca pequeña, cooperativas	IFI: banca mediana	IFI: banca grande
Empresas: microempresas	Empresas: PYME	Empresas: mediana
Tiquete: <US\$100k	Tiquete: US\$100k-1M	Tiquete: US\$1M<
Colaboración: potencial financiación de microempresas beneficiarias de BID Lab	Colaboración: potencial financiación de PYME beneficiaria de BID Lab	Colaboración: solamente BID Invest

Source: Prepared by the authors, IDB (2024).

1.19 **Strategic alignment.** The program is consistent with the IDB Group Institutional Strategy: Transforming for Scale and Impact (CA-631) and is aligned with the objective of bolstering sustainable regional growth through investments in

¹⁰⁷ [IDB Invest](#), 2020.

¹⁰⁸ Estimated amounts based on the findings of the demand study in execution.

technological and digital transformation.¹⁰⁹ The program is also aligned with the following operational focus areas: (i) gender equality and inclusion of diverse population groups; (ii) institutional capacity, rule of law, and citizen security; (iii) productive development and innovation through the private sector; and (iv) sustainable, resilient, and inclusive infrastructure. Moreover, the program is aligned with the Sector Strategy: Institutions for Growth and Social Welfare (GN-2587-2), particularly its component on enhancing MSME productivity and growth. The program is also consistent with the Long-Term Financing Sector Framework Document (GN-2768-12), under the line of action to promote more efficient, more inclusive, and more sustainable access to finance; and with the Gender and Diversity Sector Framework Document (GN-2800-13), by including financing for women-owned businesses and a pilot project for financing for persons with disabilities, as well as related actions for institutional strengthening. This program is aligned with the IDB Group Country Strategy with El Salvador 2021-2024 (GN-3046-1), under the strategic objective of facilitating access to finance for MSMEs, addressing the priority area of reactivation and restructuring of production through improved access to credit for technological and digital transformation, including analyses and solutions that facilitate this transformation for companies owned and/or run by women and persons with disabilities. The program also addresses the productive development dialogue area through MSME financing. The operation is included in the Update of the Annex III of the 2024 Operational Program Report (GN-3207-3).

- 1.20 **Paris alignment.** The operation was evaluated using the [Joint Multilateral Development Banks Methodological Principles](#) and the IDB Group Paris Alignment Implementation Approach ([GN-3142-1](#)) to determine its alignment with the Paris Agreement. It was found to be aligned with the mitigation and adaptation targets of the Paris Agreement through a simplified analysis following the transaction-based approach for operations with financial intermediaries.
- 1.21 **Considerations for gender equality and inclusion of diverse population groups.** Given the gaps in gender and persons with disabilities identified (paragraphs 1.7 and 1.8), the program incorporates the following perspectives: (i) gender, by incentivizing the participation of women's MSMEs, allocating them at least a percentage of the resources; and (ii) diversity, by promoting better access to finance for persons with disabilities through a pilot project for MSME financing for these individuals, and strengthening the institutional capacity¹¹⁰ of BANDESAL and financial intermediaries to identify and serve these businesses through training about the barriers that persons with disabilities face and advisory support for BANDESAL for data collection under the pilot.

¹⁰⁹ Although the program will finance new equipment and machines for technological and digital transformation—a majority of these energy efficient—the wide variety of equipment and machines available makes it difficult for the financial intermediaries with which BANDESAL works to have the means to verify the various energy-efficiency certifications associated with every type of equipment and machine. This operational issue makes it impossible to quantify the program's contribution to climate finance ([optional link 2](#)).

¹¹⁰ For the institutional strengthening activities, resources from a technical cooperation operation will be used ([ATN/OC-18918-RG](#), for US\$350,000 for client support, approved in 2021).

B. Objectives, components, and cost

- 1.22 **Objectives of the operation.** The general development objective is to help increase the adoption of technological and digital transformation among MSMEs in El Salvador. The specific development objective is to promote investment in technological and digital transformation through financing for MSMEs.
- 1.23 **Single component (US\$130 million).** The program resources will be channeled through eligible financial intermediaries (paragraph 3.6), which will obtain second-tier lending from BANDESAL. They will place this component's resources as subloans¹¹¹ aimed at financing investments from MSMEs in the technological and digital transformation¹¹² of processes and services of the MSME value chain for all productive sectors of the economy. The subloans can include: procurement of equipment, machines, and computer programs; obtaining extended warranties; cost of upgrading and maintaining this equipment and machines; training for technological and digital transformation; and cost of certifications and working capital associated with technological and digital transformation¹¹³ (paragraph 3.8). The financial intermediaries and MSMEs will freely agree upon the financial terms and conditions for the subloans. However, at a minimum these will include: (i) unsubsidized interest rates; (ii) a degree of transfer of the benefit of the grace period; and (iii) a maximum amount of financing per company of US\$1 million.¹¹⁴ The program incorporates the following perspectives: (i) gender, by incentivizing the participation of MSMEs owned and/or run by women, allocating them at least 15% of the amount of the Bank's loan;¹¹⁵ and (ii) diversity, by conducting a pilot project to finance MSMEs owned and/or run by persons with disabilities.
- 1.24 **Program management.** BANDESAL will cover the costs for administration, auditing, monitoring, and evaluation.
- 1.25 **Complementarity with resources from technical cooperation operations.** The loan will be complemented by a nonreimbursable technical-cooperation operation¹¹⁶ of up to US\$150,000, with resources different from the loan. This

¹¹¹ "Subloans" are defined as medium- and long-term loans provided by eligible financial intermediaries to eligible sub-borrowers, pursuant to the [Credit Regulations](#). "Sub-borrowers" are defined as individuals and businesses from all sectors of the economy that qualify as MSMEs based on the country's legal system and BANDESAL's internal policies.

¹¹² BANDESAL currently does not have a specific line of credit or portfolio to finance investments in technological and digital transformation.

¹¹³ Except for servers without an energy efficiency certification⁶ and the construction or remodeling of data centers.

¹¹⁴ Amount based on the findings of the demand study (in execution) and historical data from BANDESAL. As a reference, the demand study shows an average amount of US\$187,713.

¹¹⁵ As of December 2023, 21% of the MSMEs interested in improving their adoption of technological and digital transformation through the Digital Route initiative were run or owned by women. In this regard, the associated target was determined consistently (measured cumulatively throughout program execution), considering the following factors: (i) the lower concentration of women's businesses in sectors and with company sizes estimated to be more likely to obtain credit for technological and digital transformation; (ii) reference data from BANDESAL about loans provided to women; (iii) the average credit for women-owned and/or women-run MSMEs, which is considerably lower than for MSMEs owned or run by men; and (iv) that this is the first time that BANDESAL will be working with financial intermediaries to provide loans to women for technological and digital transformation.

¹¹⁶ In preparation.

operation will support program execution through business development, business strategy, project structuring, measurements, evaluations, training, tools, systems, dissemination, technical support, and incentives for investment in technological and digital transformation for MSMEs, with a gender and diversity perspective. Through this technical cooperation operation, training will be provided to BANDESAL and financial intermediaries to implement protocols to identify businesses owned and/or run by persons with disabilities and conduct credit analyses for them to invest in technological and digital transformation. Training will also address the barriers these businesses face in the financial sector, based on lessons learned from the pilot project and on mitigating bias against women and persons with disabilities in credit processes. In addition, with complementary resources from another nonreimbursable technical-cooperation operation¹¹⁷ (of regional scope), BANDESAL's capacity will be strengthened to implement processes to monitor and evaluate its programs, enabling it to adopt and implement an impact assessment methodology. One planned activity under the technical cooperation operations is supporting BANDESAL to coordinate with the financial intermediaries that will channel program resources in the form of subloans to the beneficiary MSMEs. These coordination activities will include BANDESAL supporting financial intermediaries in implementing a program to raise the awareness of MSMEs receiving the subloans regarding: (i) the data that MSMEs have to submit to financial intermediaries to enable BANDESAL to conduct its program monitoring and evaluation processes; (ii) financial inclusion and education; (iii) digital inclusion and education;¹¹⁸ and (iv) cybersecurity risks and good practices, to promote the safe adoption of technological and digital transformation by MSMEs in El Salvador (paragraph 3.10).

- 1.26 **Beneficiaries.** The end beneficiaries will be the sub-borrowers, meaning individuals and businesses from all sectors of the economy that qualify as MSMEs based on the country's legal system and BANDESAL's internal policies and also meet the requirements detailed in paragraph 3.7, including Salvadoran MSMEs run by women and persons with disabilities looking for financing from financial intermediaries for technological and digital transformation. There are estimated to be about 700 end beneficiary MSMEs;¹¹⁹ they might also become beneficiaries of other IDB Group programs (paragraph 1.18).

C. Key results indicators

- 1.27 **Expected impact and outcomes.** The main impact will be increased adoption of technological and digital transformation among MSMEs (paragraph 1.22), measured with the indicator: MSMEs with a level of maturity in technological and digital transformation of "advanced" and "competent," respectively. The outcomes will be: (i) total investment mobilized by the lending program for MSMEs to invest in technological and digital transformation; (ii) share of the amount of program resources to finance investments in technological and digital transformation allocated to MSMEs owned and/or run by women; and (iii) total amount of relevant

¹¹⁷ In preparation.

¹¹⁸ This information will include references to initiatives to strengthen human capital for technological and digital transformation, some with support from IDB Group programs (e.g. [5340-OC-ES](#), [5341/KI-ES](#), [GRT/ER-19647-ES](#), [GRT/ER-20154-ES](#), and [ATN/OC-18437-ES](#)).

¹¹⁹ Amount based on the findings of the demand study (in execution) and historical data from BANDESAL.

financing from BANDESAL issued to MSMEs. In addition, with complementary resources from a nonreimbursable technical-cooperation operation,¹²⁰ a new methodology to evaluate the program’s impact will be developed and implemented (paragraph 1.25).

- 1.28 **Economic analysis.** The operation’s benefits are a result of increased productivity from training employees in digital skills and competencies associated with technological and digital transformation. This will help boost the impact indicator for MSMEs with a level of maturity in technological and digital transformation of “advanced” and “competent,” respectively. The economic analysis yields a benefit-cost ratio of 2.72; an internal rate of return of 16.3% (higher than the Bank-established threshold of 12%); and a net present value of US\$22.66 million. The sensitivity analysis with the most conservative assumptions yields results that surpass the thresholds for all indicators ([optional link 1](#)).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 **Modality for the financial instrument.** This is an investment loan under the global credit modality, given this instrument’s suitability to channel funds to beneficiary MSMEs through a public development bank (BANDESAL) and financial intermediaries. The amount of the operation is US\$130 million from the Bank’s Ordinary Capital, based on the demand for financing from MSMEs to invest in technological and digital transformation (estimated at more than US\$200 million annually) (paragraph 1.6) and BANDESAL’ placement capacity in recent years (estimated at US\$120 million annually). The disbursement period will be 6 years and the commitment period 69 months, given both the novelty of providing financing to MSMEs to invest in technological and digital transformation and restrictions on the pace of disbursements.

Table 1. Estimated program costs (US\$ millions)

Components	IDB	%
Single component	130	100

- 2.2 **Restrictions on the pace of disbursements.** Pursuant to document AB-2990, Enhancing Macroeconomic Safeguards at the Inter-American Development Bank, the disbursement of loan proceeds will be subject to the following caps: (i) a maximum of 15% in the first 12 months; (ii) a maximum of 30% in the first 24 months; and (iii) a maximum of 50% in the first 36 months, counted in all instances from the date the loan operation is approved by the Bank’s Board of Executive Directors ([required link 1](#)). These caps may not apply if the requirements established in the Bank policy have been fulfilled, provided that the borrower has been notified in writing.

¹²⁰ In preparation.

Table 2. Tentative disbursement schedule (US\$ millions)

Component	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
Single component	12.0	16.0	30.0	30.0	25.0	17.0	130.00
Total	12.0	16.0	30.0	30.0	25.0	17.0	130.00
% per year	9.2	12.3	23.1	23.1	19.2	13.1	100.00

B. Environmental and social risks

2.3 Pursuant to the Environmental and Social Policy Framework (GN-2965-23), this program is classified as a financial intermediary operation with moderate environmental and social risk. The disaster and climate change risk was determined to be low. Based on the results of the environmental and social due diligence, the majority of the subloans financed under the program are expected to pose low socioenvironmental risks, with some potential subprojects of moderate risk. The program will not finance category “A” subprojects or those with substantial or high socioenvironmental risks. The program’s potential environmental and social impacts will be addressed using a program environmental and social management system, based on compliance with the IDB exclusion list, local legislation, implementation of BANDESAL’s Environmental and Social Risk Analysis System, and additional exclusion and eligibility criteria. The program’s environmental and social requirements make up its environmental and social management system, which will be included in the Credit Regulations ([required link 3](#)).

C. Fiduciary risks

2.4 The institutional analysis prepared in the third quarter of 2022 for operation [5733/OC-ES](#), updated in the third quarter of 2024, found that there is a medium-low fiduciary management risk, since the program will not carry out procurement and BANDESAL has gained experience executing operations [5083/OC-ES](#), [4567/GN-ES](#), and [5733/OC-ES](#) and technical cooperation operation [ATN/GN-17930-ES](#), demonstrating satisfactory performance (paragraph 1.14). This confirms that BANDESAL continues to have sufficient capacity to perform the financial management and resources administration activities for this operation.

D. Other key issues and risks

2.5 **Risks identified.** Three medium-high risks have been identified: (i) sustainability, given that if interest rates continue to rise, this demand for financing from MSMEs might fall, which would delay execution. This risk will be mitigated through ongoing monitoring and supervision of BANDESAL, in order to make gradual adjustments if interest rates increase significantly, achieving a gradual impact on the demand from MSMEs; (ii) sustainability, given that if there is no access to the services and equipment needed to implement technological and digital transformation (such as digital connectivity in rural areas), it will be difficult to provide financing. This risk will be mitigated through coordination with other Bank projects that provide complementary tools (such as digital connectivity in rural areas) to ensure that MSMEs have access to these services; and (iii) technical design, given that if financial intermediaries are unable to accurately and systematically identify the MSMEs owned and/or run by persons with disabilities, they might have difficulty

providing them subloans, which would prevent achievement of the indicator associated with subloans for persons with disabilities. This risk will be mitigated by strengthening the institutional capacities of BANDESAL and financial intermediaries in order to identify MSMEs owned and/or run by persons with disabilities, as well as the barriers they face in access to finance, through technical cooperation operation resources.

- 2.6 **Program sustainability.** Program sustainability will be facilitated through: (i) technical support from the IDB Group to MSMEs to determine their demand for investment in technological and digital transformation (paragraph 1.13); (ii) the eligibility criteria for the financial intermediaries (paragraph 3.6), the MSMEs (paragraph 3.7), and the subloans (paragraph 3.8), along with the operational details included in the [Credit Regulations](#), which will facilitate the program's financial sustainability by promoting fulfillment of the operational processes and financial terms and conditions based on the program's rules, commitments, and objectives (paragraph 1.22); (iii) unsubsidized interest rates that will provide the returns necessary to ensure program sustainability (paragraph 1.23); (iv) the repayments will finance additional technological and digital transformation for MSMEs; (v) BANDESAL will incorporate the financial product into its offerings; (vi) the experience gained during program execution and the training supported with resources from the technical cooperation operation will enable BANDESAL and the financial intermediaries to develop the market knowledge needed to mitigate the information asymmetries associated with market failures (paragraph 1.5) and continue offering the product after the operation; (vii) the demonstration effect will enable the private sector to envision less risk in financing technological and digital transformation for MSMEs, particularly those that are smaller and owned by women or persons with disabilities; (viii) gradual adjustments in the interest rate by BANDESAL, if there are significant increases, achieving a gradual impact on the demand from MSMEs (paragraph 2.5); and (ix) coordination with other Bank projects that provide complementary tools, to ensure that MSMEs have access to digital connectivity devices and services (paragraph 2.5).
- 2.7 **Sustainability of investments in technological and digital transformation.** With the eligible subloans (paragraph 3.8), it will be possible to finance extended warranties and upgrades and maintenance of equipment, machines, and computer programs to ensure they are updated and functionally and operationally secure (paragraphs 1.23 and 3.8), thereby maximizing their useful life. Training and certifications can also be financed, to maximize security, efficiency, sustainability, and the scope of the impact on beneficiaries (paragraph 1.26).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower, executing agency, and guarantor.** The Development Bank of the Republic of El Salvador (BANDESAL) will be the borrower and executing agency for the program, with a sovereign guarantee provided by the Republic of El Salvador. At end-December 2023, BANDESAL had US\$748 million in assets, financed by US\$459 million in liabilities and US\$288 million in equity. It also had a

US\$708 million loan portfolio, net of reserves for loan losses, of which 65% was in second-tier banking operations through financial intermediaries (including FIDEMYPE¹²¹ and FIDEAGUA)¹²² and only 35% was in first-tier operations, with a maturity index of 2.62% for the portfolio. Its earnings from January to December 2023 were US\$8.8 million, representing a 1.21% return on assets and a 3.11% return on equity. With respect to rating agencies, Moody's Investor Service confirmed its rating of Caa3 for BANDESAL in June 2023, and SCRiesgos confirmed its rating of EAA+ stable in December 2023.

- 3.2 **BANDESAL's experience and capacity as an executing agency.** BANDESAL is executing operations [5733/OC-ES](#) and [4567/GN-ES](#). In addition, it recently executed operation [5083/OC-ES](#), which achieved eligibility in August 2021 and for which 100% of the loan proceeds had been disbursed by May 2023, and the progress monitoring report found its performance to be satisfactory. Likewise, the April 2024 progress monitoring reports for operations [4567/GN-ES](#) and [5733/OC-ES](#) found performance to be satisfactory. This demonstrates BANDESAL's solid experience executing projects with Bank support.
- 3.3 **Execution and administration responsibilities.** The Funding Management Division of BANDESAL will be responsible for coordinating the arrangements for program execution.¹²³ Its responsibilities include: (i) preparation, implementation, and coordination of annual work plans; (ii) monitoring of budgets, program accounting, financial administration, reports, and disbursement requests; (iii) preparation of technical, execution, and financial reports; (iv) program monitoring and evaluation; (v) evaluation of program results at the end of the disbursement period; (vi) monitoring of contracting of the external auditor and implementation of their recommendations; and (vii) acting as the program's point of contact with the IDB. BANDESAL will use its experience and capabilities to identify end beneficiaries, grant credits, and prepare audits and program reports for the Bank with the highest transparency standards, pursuant to the guidelines established in the [Credit Regulations](#).
- 3.4 **Strategic coordination mechanisms.** BANDESAL will carry out the necessary coordination with the Ministry of Finance, particularly between the president of BANDESAL and the ministry's Bureau of Public Investment and Credit, to ensure proper coordination during program execution.
- 3.5 **Credit Regulations.** The program's [Credit Regulations](#) will establish its terms and conditions, including the specific characteristics of MSME subloans to incentivize investment in technological and digital transformation;¹²⁴ limitations on the use of funds; application of the program's environmental and social management system, including the exclusion list; monitoring of socioenvironmental considerations; fiduciary obligations; monitoring and evaluation requirements; and the exclusion list of companies and individuals sanctioned by the IDB. Any modifications to the

¹²¹ Trust for the Development of Microenterprise and Small Business.

¹²² Trust for Water Safety.

¹²³ With support from various institutional divisions of BANDESAL.

¹²⁴ The program seeks to promote medium- and long-term subloans, transfer the benefit of the grace period, and ensure that the credit conditions for rates do not deviate significantly, which BANDESAL and the Bank have authority to review (e.g. repayment periods, grace period for principal, and interest rates).

- Credit Regulations need to have the Bank's clearance and/or no objection ([optional link 3](#)).
- 3.6 **Eligibility criteria for the financial intermediaries.** Eligible financial intermediaries will be those subject to the SSF's inspection and oversight, as well as unregulated financial intermediaries that meet the conditions stipulated within BANDESAL's risk management system and that have borrowing authority in effect with BANDESAL. BANDESAL's eligibility evaluation system is determined by institutional lending policies approved by its Board of Directors¹²⁵ and reviewed by the SSF, which in turn follow a risk-based approach. If applicable, the [Credit Regulations](#) will include additional or supplementary information on program eligibility criteria ([optional link 3](#)).
- 3.7 **Eligibility criteria for the MSMEs.** To be eligible as sub-borrowers, in addition to the requirements indicated in paragraph 1.26, MSMEs must meet the following requirements: (i) be a solvent qualified borrower; and (ii) meet the credit requirements of the financial intermediaries ([optional link 3](#)).
- 3.8 **Eligibility criteria for the subloans.** The subloans may finance investments from MSMEs in the technological and digital transformation of processes and services in the MSME value chain for all productive sectors of the economy. The subloans can include: procurement of equipment, machines, and computer programs; obtaining extended warranties; cost of upgrading and maintaining this equipment and machinery; training in technological and digital transformation; and cost of certifications and working capital associated with technological and digital transformation. The exceptions are servers without an energy efficiency certification and construction or remodeling of data centers. To ensure that the usage of funding is according to program objectives, the loan contract will include the following obligations: (i) the eligible usage of funding; (ii) the authority of BANDESAL and the IDB to inspect the subprojects; (iii) the requirement for MSMEs to submit information about the subprojects, through the financial intermediaries, to BANDESAL and the Bank; and (vi) the right of BANDESAL, the Bank, and the financial intermediaries to suspend disbursements if the stipulated conditions are not met.
- 3.9 **Special contractual conditions precedent to the first disbursement of the financing.** A special contractual condition precedent to the first disbursement of the loan proceeds is the approval by BANDESAL of the [Credit Regulations](#) for this program, under terms previously agreed on with the Bank, including socioenvironmental issues based on the environmental and social review summary. This condition is justified, because the [Credit Regulations](#) include details on the guidelines that will be adopted for the program's single component and the socioenvironmental conditions pursuant to the environmental and social review summary ([required link 3](#)).

¹²⁵ The three essential policies are: (i) counterpart risk policy for institutions under SSF supervision; (ii) counterpart risk policy for financial intermediaries not supervised by the SSF; and (iii) counterpart risk policy for corporations, cooperative corporations, and coffee plantation and sugar mill cooperative associations.

- 3.10 **Special contractual conditions for execution:** BANDESAL pledges to ensure that the eligible financial intermediaries implement a program to raise the awareness of sub-borrowers on: (i) financial literacy and inclusion; (ii) digital literacy and inclusion; and (iii) cybersecurity risks and good practices, to promote the secure adoption of technology. This condition is justified, since it is important to ensure the commitment of technical support from BANDESAL, and in turn from the financial intermediaries, for raising the awareness of sub-borrowers in these areas, given that this will contribute to achieving the general development objective of supporting increased adoption of digital and technological transformation of MSMEs in El Salvador.
- 3.11 **Exceptions to Bank policies.** A partial waiver of the Policy on Guarantees Required from the Borrower (OP-303) is requested from the Board of Executive Directors, so the Republic of El Salvador will only guarantee the monetary obligations stemming from the loan contract signed 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 operations [4977/OC-ES](#), [4567/GN-ES](#), [5083/OC-ES](#), and [5733/OC-ES](#).
- 3.12 **Disbursements and justification of advances.** The loan will be disbursed in the form of advances of funds. Their frequency is determined by the program's financial programming for a period of six months, pursuant to the Financial Management Guidelines for IDB-financed Projects (GN-2811-1). The Bank will process a new fund advance when at least 80% of the cumulative total of previous disbursements has been justified. 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.
- 3.13 **Retroactive financing.** The Bank may retroactively finance, from the loan proceeds, subloans disbursed through financial intermediaries to eligible sub-borrowers prior to the loan approval date for up to US\$13 million (10% of the loan amount approved by the Bank), provided they have met requirements substantially similar to those established in the loan contract. Such subloans will have been signed on or after 8 July 2024 (program profile approval date), but in no case may they have been executed more than 18 months prior to the loan approval date. Retroactive financing will provide the borrower more flexibility with respect to disbursement and justifications of the use of resources, because during the time needed to process the operation, the financial intermediaries through which BANDESAL places subloans will have signed subloans with sub-borrowers that can be deemed eligible.
- 3.14 **Financial statements and audit.** Audits of the program's financial statements will be conducted in accordance with the procedure previously agreed on with the Bank. Within 120 days following the end of the program's fiscal year and 120 days following the date that the last disbursement was justified, throughout the original disbursement period or any extensions thereof, the executing agency will submit

the program's audited financial statements, duly audited by an independent audit firm acceptable to the Bank.

B. Summary of arrangements for monitoring results

- 3.15 **Monitoring.** Program execution will be monitored via semiannual progress reports prepared by the executing agency and presented within 60 days after the close of each six-month period, throughout the disbursement 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, as well as fulfillment of the eligibility criteria set forth in the [Credit Regulations](#). These reports will be reflected in the progress monitoring reports ([required link 2](#)). The executing agency will bear the costs of monitoring.
- 3.16 **Evaluation.** The program will have a midterm evaluation—within 120 days following the third anniversary of the first disbursement of loan proceeds—and the midterm evaluation report will be presented to the Bank within 90 days following the evaluation. There will also be a final evaluation—within 90 days after the end of the term for the last disbursement—and the final evaluation report will be presented to the Bank within 90 days following the final evaluation. Various approaches will be used as part of the strategy for evaluating program results: (i) an ex post cost-benefit analysis of the flows of benefits and costs from the program, using a strategy similar to the one used for the ex ante cost-benefit analysis; and (ii) a qualitative analysis to be included in the program completion report. This analysis will be aimed at responding to and/or explaining the rationale for the main weaknesses and challenges found for program execution; the measures implemented to address these weaknesses and challenges; the design of the operation to address the characteristics of the issues involved; and the lessons learned and proposals generated from program execution. The evaluation strategy is described in the monitoring and evaluation plan ([required link 2](#)). The executing agency will bear the evaluation costs, with the potential for support from complementary technical cooperation operations.
- 3.17 **Information for program monitoring and evaluation.** The executing agency will be responsible for maintaining the monitoring and data-collection management systems. It will commit to maintain a management system for 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 annual plans and the final evaluation of results. 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 ([required link 2](#)).

Development Effectiveness Matrix		
Summary		ES-L1163
I. Corporate and Country Priorities		
Section 1. IDB Group Institutional Strategy Alignment		
Operational Focus Areas	<ul style="list-style-type: none"> -Gender equality and inclusion of diverse population groups -Institutional capacity, rule of law, citizen security -Sustainable, resilient, and inclusive infrastructure -Productive development and innovation through the private sector 	
[Space-Holder: Impact framework indicators]		
2. Country Development Objectives		
Country Strategy Results Matrix	GN-3046-1	Facilitate access to finance for MSMEs
Country Program Results Matrix	GN-3207-3	The intervention is included in the 2024 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		9.7
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		3.2
3.3 Results Matrix Quality		4.0
4. Ex ante Economic Analysis		7.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		1.5
4.2 Identified and Quantified Benefits and Costs		0.0
4.3 Reasonable Assumptions		2.5
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		9.5
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		5.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Low
Environmental & social risk classification		FI
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)		Budget, Treasury, Accounting and Reporting.
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	(i) ATN/OC-20001-ES; (ii) ATN/GN-17930-ES; (iii) ATN/OC-17746-ES; (iv) ATN/OC-17576-ES; y (v) ATN/OC-15154-ES

Evaluability Assessment Note:

The operation ES-L1163 (Program for the Support of Technological and Digital Transformation of MSMEs in El Salvador), structured as a US\$130 million Global Credit Program, has as its general objective the support for the increased adoption of technological and digital transformation by MSMEs in El Salvador. The specific development objective of the project is to promote investments in technological and digital transformation through the provision of financing for MSMEs. The project diagnostic identifies the low adoption of digital technologies and transformation (TTD) among MSMEs in El Salvador as one of the key contributors to their low productivity and growth. One of the principal causes of low investment in TTD is the lack of access to financing, which is the gap that the project is aiming to address. Overall, the diagnostic provides ample evidence of the existence and size of the MSME financing gap, estimated at US\$10b, while the demand study undertaken for the preparation of the operation estimates MSMEs financing needs for TTD investment at US\$200m annually. The project aims to provide US\$130m in loans to eligible MSMEs through BANDESAL, a portion of which is intended specifically for women-led MSMEs.

The project's vertical logic is sound, and the Results Matrix includes indicators appropriate for measuring the achievement of the specific objective. The economic analysis indicates a positive NPV for the project, although it is not clear that all economic costs and benefits have been included in the calculation. The Monitoring and Evaluation plan satisfies the requirements for this type of operation. No impact evaluation is planned for the project; instead, the project will be assessed at closure using methodologies (ex-post cost benefit analysis, qualitative analysis) which preclude the attribution of results.

RESULTS MATRIX

Program objective:	The specific development objective is to promote investment in technological and digital transformation through financing for micro, small, and medium-sized enterprises (MSMEs). The general development objective is to help increase the adoption of technological and digital transformation among MSMEs in El Salvador.
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GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline value	Baseline year	End of project	Means of verification	Comments
General development objective: Increase the adoption of technological and digital transformation among MSMEs in El Salvador.						
Indicator 1: MSMEs with a level of maturity in technological and digital transformation of “advanced” and “competent,” respectively.	%	(X, Y)	2024	(X+10%, Y+15%)	Digital Route report for program beneficiaries	<p>This indicator measures the level of digital maturity of the program’s beneficiary MSMEs based on results from the Digital Route platform, an online self-diagnostic tool implemented by the Ministry of Economy. These results rank MSMEs according to one of the following maturity levels in ascending order: (i) “novice,” (ii) “initial,” (iii) “competent,” and (iv) “advanced.”</p> <p>The baseline reflects the percentage of beneficiary MSMEs with “advanced” and “competent” maturity status before investing in technological and digital transformation with financing supported by the program. The target reflects the percentage of beneficiary MSMEs with “advanced” and “competent” maturity status after they have invested in this transformation with financing from the program.</p> <p>For the end target, the percentage of beneficiary MSMEs with an “advanced” maturity level is expected to result from a 10% increase over the baseline, while the percentage of these MSMEs with a “competent” maturity level is expected to result from a 15% increase over the baseline.</p> <p>Only as a reference and without any significance for the baseline, the results from the Digital Route online self-diagnostic completed by 292 MSMEs in mid-2024 showed the following percentages for each maturity level: (i) 44% “novice,” (ii) 36% “initial,” (iii) 19% “competent,” and (iv) 1% “advanced.”</p>

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Baseline value	Baseline year	End of operation	Means of verification	Comments
Specific development objective: Promote investment in technological and digital transformation through financing for MSMEs.						
Indicator 1: Total investment mobilized by the lending program for MSMEs to invest in technological and digital transformation.	US\$ millions	0	2024	143	BANDESAL's Management Information System (SIG) and semiannual monitoring report	<p>The baseline is 0 because the indicator measures the mobilization of investment based on the program.</p> <p>To calculate the target, the basis used was the amounts provided by Conditional Credit Lines for Investment Projects (CCLIPs) from August 2021 to 31 July 2022 (including rediscounts and advances), since this includes the field "total amount of the operation."</p> <p>A survey of financial intermediaries was updated, confirming that the leverage ratios range from 15% for medium-sized enterprises to 12% for small businesses and 0% for microenterprises.</p> <p>It is assumed that the leveraging for MSMEs applying for financing to invest in technological and digital transformation is similar to that of MSMEs that applied for financing for generic purposes under the CCLIPs mentioned above, meaning, approximately 10%. MSMEs applying for financing for investment in technological and digital transformation are expected to replicate the leveraging of MSMEs applying for financing for general purposes. Therefore, the target value is estimated at 10% (based on leveraging), which exceeds the total amount of the operation, US\$130 million, meaning a cumulative total of US\$143 million after all the program's total number of years.</p> <p>For the calculation, the database of placements from the new operation will be used, since it includes the field "total amount of the program," as described in the Credit Regulations.</p>
Indicator 2: Share of the amount of program resources to finance investments in technological and digital transformation allocated to MSMEs owned and/or run by women.	%	0	2024	15	BANDESAL SIG and semiannual monitoring report	<p>Pro-gender indicator.</p> <p>The baseline is 0 because BANDESAL does not have lines dedicated to financing technological and digital transformation.</p> <p>As of December 2023, only 21% of the MSMEs interested in improving their adoption of technological and digital transformation through the Digital Route initiative were managed or run by women. The target, which is measured cumulatively throughout program execution, was adjusted downward given: (i) the lower concentration of women's businesses in sectors and with company sizes estimated to be more likely to obtain credit for technological and digital transformation; (ii) reference data from BANDESAL about loans provided to women; (iii) the average loan for women-owned and/or women-run MSMEs, which is considerably lower than for those owned and/or run by</p>

Indicators	Unit of measure	Baseline value	Baseline year	End of operation	Means of verification	Comments
						<p>men; and (iv) this is the first time that BANDESAL will be working with financial intermediaries to provide loans to women for technological and digital transformation.</p> <p>Businesses will be considered “women-owned” under any of the following scenarios: (i) 51% or more of the equity is owned by one or more women; (ii) 20% or more of the property belongs to women, a woman holds the position of general manager or its equivalent, and women make up at least 30% of the board of directors (if applicable); and (iii) the legal representative is a woman. For individuals, the sex (woman) of the person receiving the loan will be considered.</p>
<p>Indicator 3: Total amount of relevant financing from BANDESAL issued to MSMEs.</p>	<p>US\$ millions</p>	<p>366.3</p>	<p>2023</p>	<p>496.3</p>	<p>BANDESAL SIG and semiannual monitoring report</p>	<p>This indicator measures the total amount of loans approved for MSMEs to invest in technological and digital transformation throughout the six-year program execution period.</p> <p>Given that due to the program’s innovative nature, BANDESAL does not have a specific portfolio to finance technological and digital transformation, for the baseline, the total amount of relevant financing considered is the total amount provided for investment or fixed assets for general purposes to MSMEs in the past six years, which is estimated at US\$366,300,005.86.</p> <p>The final target was calculated based on the total amount of relevant financing for the baseline (US\$366,300,005.86) plus the total amount of the program (US\$130 million): US\$496,300,005.86.</p>

OUTPUTS

Outputs	Unit of measure	Base-line value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	End of project	Means of verification	Comments
Single component (US\$130 million).												
Output 1: Amount provided to MSMEs with program support to finance investments in technological and digital transformation.	US\$ millions	0	2024	10.2	13.6	25.5	25.5	21.25	14.45	110.5	BANDESAL SIG and semiannual monitoring report	The indicator measures the amount of financing provided to MSMEs not included in the Output 2 indicator, for investments in technological and digital transformation (complementing the next indicator). The subloans will finance investments in technological and digital transformation for Salvadoran MSMEs. Amounts are expected to increase gradually.
Output 2: Amount of credit provided, with program support, to MSMEs owned and/or run by women for investments in technological and digital transformation.	US\$ millions	0	2024	1.8	2.4	4.5	4.5	3.75	2.55	19.5		Pro-gender indicator. Amount provided, with program support, to MSMEs owned and/or run by women for investments in technological and digital transformation. Amounts are expected to increase gradually.
Output 3: Minimum number of companies owned and/or run by persons with disabilities receiving financing, with program support, for investments in technological and digital transformation.	Number	0	2024	0	0	1	2	2	2	7		Pro-diversity indicator. Measures the number of companies owned by persons with disabilities that received financing. Since this is the first time this focus is being used, it will be considered a pilot. Because it will be implemented with a specific number of companies, BANDESAL will coordinate with the financial intermediaries selected in order to have access to this information.

Country: El Salvador **Division:** IFD/CMF **Operation number:** ES-L1163 **Year:** 2024

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Development Bank of the Republic of El Salvador (BANDESAL)

Operation name: Program to Support the Technological and Digital Transformation of MSMEs in El Salvador

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in the operation¹

<input checked="" type="checkbox"/> Budget	<input type="checkbox"/> Reports	<input type="checkbox"/> Information systems	<input type="checkbox"/> National competitive bidding (NCB)
<input checked="" type="checkbox"/> Treasury	<input type="checkbox"/> Internal audit	<input type="checkbox"/> Shopping	<input type="checkbox"/> Other
<input checked="" type="checkbox"/> Accounting	<input type="checkbox"/> External control	<input type="checkbox"/> Individual consultants	

2. Fiduciary execution mechanism

<input checked="" type="checkbox"/>	Specific features of fiduciary execution	<p>The program is structured as a global credit loan, through which financing 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.</p> <p>The Funding Management Division of BANDESAL will be responsible for coordinating the arrangements for program execution. BANDESAL will use its experience and capabilities to identify end beneficiaries, grant credits, and prepare audits and program reports for the Bank with the highest transparency standards, pursuant to the guidelines established in the Credit Regulations.</p>
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3. Fiduciary capacity

Fiduciary capacity of the executing agency	<p>The simplified assessment of the fiduciary capacity of the executing agency confirmed that BANDESAL has well-established capacity to conduct the financial management and administration activities for this operation. Significantly, BANDESAL is currently executing operations 5733/OC-ES and 4567/GN-ES, demonstrating satisfactory performance in both cases. Moreover, in 2023 BANDESAL satisfactorily completed execution of loan 5083/OC-ES.</p>
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¹ Any system or subsystem that is subsequently approved may be applicable to the operation, in accordance with the terms of validation by the Bank.

4. **Policies and guidelines applicable to the operation:** Paragraph 3.13, Procurement in Loans to Financial Intermediaries, of the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (GN-2349-15), is applicable, according to which procurement is usually undertaken by the beneficiaries in accordance with established private sector or commercial practices. As a demand-driven program with a single component to finance subloans, no procurement of goods, works, nonconsulting services, or consulting services is expected as part of execution. Therefore, a procurement plan is not included in this proposal. Financial management will follow the Financial Management Guidelines for IDB-financed Projects (OP-273-12); the Instructions for Financial Reporting and External Audit Management; and the Disbursement Guidelines.
5. **Exceptions to policies and guidelines:** None.

II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

<p>Exchange rate: For the purposes of Article 4.10 of the General Conditions, the parties agree that the exchange rate to be used will be the rate stipulated in Article 4.10(b)(ii). For these purposes, the agreed upon exchange rate will be the rate in effect on the date the borrower, the executing agency, or any other person or corporation with delegated authority to incur expenditures makes the respective payments to the contractor, vendor, or beneficiary.</p>
<p>Type of audit: During program execution, audited annual financial statements will be delivered within 120 days after the close of each fiscal year. The external audit of the program will be conducted by an outside firm acceptable to the Bank. The program's final audited financial statements will be submitted within 120 days after the date of the last disbursement.</p>

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

☒	Projects with financial intermediaries	As this loan is for global credit programs and other operations in which resources are provided to financial intermediaries that will in turn grant subloans or resources via other onlending modalities, it will be stipulated that the Bank's prohibited practices clauses are to be included in the agreements between the executing agency, the financial intermediaries, and the end beneficiaries. Alternatively, if the effective inclusion of these clauses in the aforementioned contracts is not possible or practical in view of the program's circumstances, the project team may examine other mechanisms to adopt acceptable controls and duly bind the relevant third parties to the Sanctions Procedures. The design of such mechanisms will be coordinated with the Office of Institutional Integrity (OII), with support from the Legal Department, and included in the Credit Regulations.
☒	Retroactive financing	The Bank may retroactively finance, from the loan proceeds, subloans disbursed through financial intermediaries to eligible sub-borrowers prior to the loan approval date for up to US\$13 million (10% of the loan amount approved by the Bank), provided they have met requirements substantially similar to those established in the loan contract. Such subloans will have been signed on or after 8 July 2024 (program profile approval date), but in no case may they have been executed more than 18 months prior to the loan approval date. Retroactive financing will provide the borrower more flexibility with respect to disbursement and justifications of the use of resources, because during the time needed to process the operation, the financial intermediaries through which BANDESAL places subloans will have signed subloans with sub-borrowers that can be deemed eligible.

IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

☒	Programming and budget	<p>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 budget needs to be submitted to its Board of Directors for approval, and subsequently submitted for approval by its Board of Governors.</p> <p>A specific line of credit will be created for the program to facilitate the control and monitoring of the terms, allocations, and liquid assets in the Sistema Banca 2000, which draws on information from the approved budget and integrates accounting records with treasury operations.</p>
☒	Treasury and disbursement management	<p>The IDB will disburse resources for the operation mainly in the form of advances. The reimbursement modality may be used upon request from BANDESAL. Disbursement requests will be accompanied by the list of eligible rediscounted subloans pursuant to the terms of the Credit Regulations.</p> <p>BANDESAL will prepare annual disbursement schedules covering a 12-month rolling period. The executing agency will open a dedicated checking account at the Central Reserve Bank (BCR) to receive and manage the funds for operation ES-L1163.</p>
☒	Accounting, information systems, and reporting	<p>Program accounting will be the responsibility of BANDESAL, using its own accounting system, in which accounting and treasury operations are integrated through the Sistema Banca 2000 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 Office of the Superintendent of the Financial System (SSF).</p>
☒	Internal control and internal audit	<p>BANDESAL applies the technical standards for specific internal control issued through legislation and the internal and external rules applicable to BANDESAL and the funds it manages, based on the global framework of the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.</p> <p>It has an Audit and Control Division and a Compliance Division that report directly to the Board of Directors. In addition, it has an Audit Committee that supervises the operation of the internal audit function to ensure its effectiveness and independence and monitors the recommendations made by internal and external auditors and the SSF, to ensure that corrections are made or issues addressed in a timely manner.</p>
☒	External control and financial reports	<p>External control of the program will be performed by an external independent audit firm acceptable to the Bank. The external audit firm may be the same one that audits the entity's financial statements, as long as it is an audit firm acceptable to the Bank.</p> <p>The terms of reference will be subject to the Bank's prior no objection. If there is a competitive procurement process, it will follow the provisions of the Bank's Audited Financial Reports and External Audit Management Handbook.</p>
☒	Financial supervision of the operation	<p>The operation requires ex post financial supervision of disbursements, which will rely primarily on the audited financial statements. To complement this, the Bank will conduct at least one annual financial supervision visit to the executing agency.</p>

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/24

El Salvador. Loan ____/OC-ES to Banco de Desarrollo de la República de El Salvador
(BANDESAL)
Program to Support the Technological and Digital
Transformation of MSMEs in El Salvador

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 Program to Support the Technological and Digital Transformation of MSMEs in El Salvador. Such financing will be for the amount of up to US\$130.000.000, 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 _____ 2024)