



EL SALVADOR

February 2018

TECHNICAL ASSISTANCE REPORT—BALANCE OF PAYMENTS, INTERNATIONAL INVESTMENT POSITION, AND SECONDARY INCOME STATISTICS (JULY 14–22, 2014)

This Technical Assistance Report on El Salvador was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed on September 2015.

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REPORT ON THE TECHNICAL ASSISTANCE MISSION ON BALANCE OF PAYMENTS, INTERNATIONAL INVESTMENT POSITION, AND SECONDARY INCOME STATISTICS (July 14–22, 2014)

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September 2015

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ACRONYMS AND ABBREVIATIONS

BCRES	Central Reserve Bank of El Salvador
BIT	Balance of International Transactions
<i>BPM6</i>	Sixth edition of the <i>Balance of Payments and International Investment Position Manual</i>
CAPTAC-DR	Technical Assistance Center for Central America, Panama, and the Dominican Republic
CEDEVAL	Central Securities Depository
CONSAA	Salvadoran Sugar Council
CSC	Salvadoran Coffee Council
DBP	Balance of Payments Department
CPIS	Coordinated Portfolio Investment Survey
CDIS	Coordinated Direct Investment Survey
FDI	Foreign direct investment
IIP	International Investment Position
NGOs	Nongovernmental Organizations
NPISHs	Nonprofit institutions serving households
PRAESE	Regional Project on Harmonizing External Sector Statistics
SEFER	Securities Held as Foreign Exchange Reserves
SSF	Financial System Superintendency

EXECUTIVE SUMMARY

As part of the Regional Project on Harmonizing External Sector Statistics (*Proyecto Regional de Armonización de las Estadísticas del Sector Externo - PRAESE*) of the Technical Assistance Center for Central America, Panama, and the Dominican Republic, a technical assistance mission on balance of payments, international investment position (IIP), and secondary income statistics visited the city of San Salvador over the period July 14–22, 2014.

The purpose of the technical assistance mission was to help the Central Reserve Bank of El Salvador (BCRES), the institution responsible for compiling the balance of payments, the IIP, and external debt statistics, to improve external sector statistics in accordance with the guidelines of the sixth edition of the *Balance of Payments and International Investment Position Manual*. The mission focused on reviewing practical topics related to the compilation and recording of secondary income and following up on the recommendations provided to the BCRES regarding the Coordinated Direct Investment Survey (CDIS) and the Coordinated Portfolio Investment Survey (CPIS). At the request of the authorities, the mission also reviewed methodology and compilation topics related to financial derivatives and manufacturing services on inputs owned by others.

The mission reviewed workers' remittances estimates, which are based on information that the banks and other financial institutions provide to the Balance of Payments Department (*Departamento de Balanza de Pagos - DBP*) daily and recommended starting to compile data on personal transfers. The mission also reviewed progress made on the recommendations for the CDIS. Although El Salvador is currently reporting data to the CDIS, there are some topics that need improvement, particularly the positions of the shareholders of the three most important financial groups and their subsidiaries in order to avoid duplicate entries. Agreement was also reached on additional actions that would allow El Salvador to begin reporting to the CPIS in the first quarter of 2015.

The mission agreed with the authorities on an action plan indicating specific recommendations regarding the balance of payments and the IIP that arose from the discussions and that are explained in detail in the report. The mission agreed with the authorities regarding the monitoring of three specific benchmark actions as follows:

- Processing payment vouchers sent to the BCRES by banks and other entities paying remittances for amounts exceeding the threshold of US\$500 in order to complete the personal transfers estimates (December 2014).
- Implementing agreed actions to improve current estimates of foreign direct investment (FDI) liability positions, particularly reviewing and completing the exercise conducted during the mission on determining the assets of the three most important financial groups and visiting the principal financial sector holding companies in order to clarify

the positions of shareholders as reported in the FDI survey and thus avoid duplicating FDI position amounts (June 2015).

- For compilation of the CPIS, implementing the actions agreed upon, particularly requesting information from the Financial System Superintendency on foreign securities holdings and issuing country for the banks, insurance companies, and other financial institutions in order to complete Tables 1 and 3 of the CPIS and the corresponding metadata (June 2015).

At the end of the mission, a meeting was held with the participation of Mrs. Xiomara Hurtado de García, Chief of the DBP, and Mrs. Mayela Calderón, Coordinator of the DBP, during which a presentation was made on the principal findings and recommendations for improving the compilation of balance of payments and IIP statistics and achieving the objectives of the PRAESE.

ACTION PLAN

The following action plan has been developed to achieve the PRAESE objectives of the member countries of the Technical Assistance Center for Central America, Panama, and the Dominican Republic and to improve practices in the compilation and dissemination of balance of payments and IIP statistics. The plan includes three benchmark actions that will be subject to special compliance monitoring.

Number	DQAF	Recommendation	Para-graphs	Verifiable indicator	Priority and Completion Date
1	3.1.1	Regarding financial derivatives linked to commodities: As indicated by the Salvadoran Coffee Council, there are financial derivatives operations in the marketing of coffee. The mission recommends conducting an informative interview with the expert on the subject in that sector.	10	Interview done.	High. March 2015.
2	3.1.1	Regarding financial derivatives of financial sector institutions: Perform periodic reviews of the financial statements of financial sector institutions to identify possible financial derivatives operations in other institutions in the future.	10	Periodic reviews done.	High. Permanent.
3	3.1.1	Regarding financial derivatives of the nonfinancial private sector: Confirm with the most important private sector enterprises the response to the financial derivatives item given that one bank indicated that it receives requests for these products as protection against interest rates in particular, referring them to its associates abroad.	10	Confirmation with private sector enterprises done.	High. December 2014.
4	2.1.1	Regarding cash remittances: Process the payment vouchers that banks and other remittance paying entities send to the BCRES for amounts exceeding the threshold of US\$500 in order to complete the personal transfers estimates.	11-15	Figures on total personal transfers available.	Benchmark action. December 2014.
5	2.1.1	Regarding in-kind remittances: Confirm the estimated amount of in-kind remittances currently available in the next remittances survey and add to the cash remittances amount to obtain the total amount of household remittances.	16-17	Amount of total remittances including in-kind remittances available.	High. June 2015.
6	2.3.1	Regarding grants-credit: For practical purposes, include the entire amount of grants received by the government (government grants) and those received by nongovernmental organizations (NGOs) under the secondary income item: current international cooperation.	18-19	Reclassification done.	Medium. March 2015.
7	2.3.1	Regarding miscellaneous current transfers: Break down the miscellaneous current transfers item to identify household remittances, transfers to	20	Breakdown and recording	Medium. i) December 2014.

Number	DQAF	Recommendation	Para- graphs	Verifiable indicator	Priority and Completion Date
		NGOs, and other transfers. Record household remittances under the personal transfers item, transfers to NGOs under the current international cooperation item, and other transfers under the miscellaneous current transfers item.		done.	ii) March 2015.
8	3.1.1	Regarding the estimates of temporary workers' transactions: Review and complete exercises developed during the mission regarding incomes and expenses of temporary workers employed in coffee and sugar harvests. Record resulting estimates under appropriate primary income, secondary income, and travel items in the balance of payments.	23-25	Reviews and recording done.	Medium. i) March 2015. ii) March 2015.
9	3.4.3	Regarding direct investment liabilities: Implement actions agreed upon for improving current estimates of FDI liabilities positions; in particular, review and complete the exercise done during the mission on determining the assets of the three most important financial groups and visit the principal financial sector holdings to clarify the shareholders' positions as reported in the FDI survey in order to avoid duplicate entries for the FDI positions amounts: Research current regulations on the establishment and operation of holding companies (Financial Investments or Exclusive Purpose Holding Companies) in the financial sector. Review and complete the data in the exercise done during the mission on determining the assets of the three most important financial groups. Visit the principal financial sector holding companies to clarify the recording and nature of the figures reported in the balance of payments survey in order to avoid duplicate entries for the amounts of direct investment liabilities positions, based on the revised figures from the exercise done during the mission. Review the status of inactive companies for which FDI liabilities balances are maintained in the IIP, identifying those that are no longer active and making the corresponding adjustments in the balance of payments and the IIP.	31-38	Current regulations reviewed. Exercises reviewed and completed. Visits done. Review of inactive companies done.	Benchmark action. i) September 2014. ii) December 2014. iii) December 2014. iv) June 2015.
10	3.1.1	Regarding direct investment assets: Evaluate the possibility of using CDIS data for El Salvador's direct investment assets, while the national source is being strengthened.	39	Evaluation done.	High. June 2015.
11	2.1.1; 3.1.1	For compiling the CPIS, implement the actions agreed upon; in particular, ask the Financial System Superintendency for information on foreign securities holdings and issuing country for banks, insurance companies, and other financial institutions in order to complete Tables 1 and 3 of	40-47	Request made to the Financial System Superintendency.	Benchmark action. i. December 2014.

Number	DQAF	Recommendation	Para- graphs	Verifiable indicator	Priority and Completion Date
		<p>the CPIS and the corresponding metadata: Ask the Financial System Superintendency for information on foreign securities holdings (shares and equity and debt instruments, distinguishing between short- and long-term) in the financial system (including insurance companies), identifying country of origin of the instruments' issuer. Complete Tables 1 and 3 and the metadata in the CPIS. Begin to report portfolio investment assets data to the CPIS.</p>		<p>Tables and metadata completed.</p> <p>Portfolio investment assets data reported to the CPIS.</p>	<p>ii. June 2015.</p> <p>iii. June 2015.</p>

I. INTRODUCTION

1. As part of the Regional Project on Harmonizing External Sector Statistics (PRAESE) of the member countries of the Technical Assistance Center for Central America, Panama, and the Dominican Republic (CAPTAC-DR), initially launched in November 2009 in Guatemala City, a technical assistance mission on balance of payments and international investment position (IIP) statistics visited the city of San Salvador during the period September 14–22, 2014.

2. The mission's main objective was to help the Central Reserve Bank of El Salvador (BCRES) continue its efforts to improve the compilation of balance of payments and IIP statistics, in the context of the PRAESE's objectives. The assistance focused on evaluating methodologies and practical compilation issues related to external sector statistics in accordance with the guidelines of the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*. The following areas were reviewed: (i) practical aspects in compiling the secondary income account; (ii) data consistency tables for enterprises operating in free trade zones; (iii) improvements in the current compilation of the Coordinated Direct Investment Survey (CDIS); and (iv) progress made in the compilation of the Coordinated Portfolio Investment Survey (CPIS). At the request of the authorities, the topic of financial derivatives and manufacturing services on inputs owned by others was also reviewed. The mission agreed with the authorities on an action plan that identifies recommendations, including specific benchmark actions for monitoring and compliance.

3. The mission's main tasks were as follows:

- Support the BCRES in its efforts to coordinate with other information provider institutions and enterprises so as to promote understanding of information requirements for purposes of compiling external statistics.
- Assist BCRES staff on practical aspects of compiling and recording the secondary income account, with emphasis on review and practical utilization of the material presented during a recent CAPTAC-DR seminar on this topic.
- Advise the BCRES on completing the data consistency tables of enterprises operating in free trade zones.
- Follow up the recommendations provided to the BCRES regarding the CDIS and CPIS and assist staff on methodological aspects in order to improve the CDIS and implement the CPIS in El Salvador.
- Provide direct training on relevant aspects that might arise during the technical assistance mission.

4. The following three benchmark actions, for which the Balance of Payments Department (DPB) is responsible, were established:

- Process the payment vouchers sent by banks and other entities paying remittances for amounts exceeding US\$500 and add the resulting amounts to the current amount of workers' remittances to obtain total personal transfers (for completion in December 2014).
- Review and complete the data for the exercise done during the mission on determining the assets of the three most important financial groups and visit the principal financial sector holding companies to clarify the accounting and nature of the figures they report in the balance of payments survey in order to avoid duplicate entries for direct investment liability positions (for completion in June 2015).
- Implement the following actions with respect to the CPIS: (i) ask the Financial System Superintendency (SSF) for information on foreign securities holdings (shares and equity and debt instruments, distinguishing between short- and long-term) in the financial system (including insurance companies), identifying the country of origin of the instruments' issuer; (ii) complete Tables 1 and 3 and the metadata for the CPIS; and (iii) begin to report the data on portfolio investment assets to the CPIS (for completion in June 2015).

5. The mission collaborated closely with the Chief and staff of the DBP, which is the area responsible for compiling El Salvador's balance of payments and IIP. Operationally, the DBP reports to the Office of Economic Studies and Statistics. The mission also held working meetings with officials of the Salvadoran Coffee Council (CSC); five banks: Banco Agrícola, Citibank, Scotiabank, Banco de América Central, and Banco Davivienda; the airline company Avianca (Taca); and the Salvadoran Sugar Council (CONSAA).

6. The mission also met with the BCRES Board of Directors to report on the mission's objective and the progress made by the BCRES in the context of the PRAESE, and with Mrs. Martha Evelyn de Rivera, Vice President of the BCRES, to inform her about the agreed upon action plan.

7. The mission appreciates the hospitality, cooperation, and interest demonstrated by BCRES staff during its stay, particularly Mrs. Xiomara Hurtado de García, Chief of the DBP, Mrs. Claudia Mayela Calderón, Coordinator of the DBP, and the rest of the DBP team.

8. At the end of the mission, a meeting was held with the participation of Mrs. Xiomara Hurtado de García, Chief of the DBP, and Mrs. Claudia Mayela Calderón, Coordinator of the DBP, to present the main findings and recommendations for improving the compilation of balance of payments and IIP statistics and meeting the objectives of the PRAESE. Agreement was reached on an action plan to implement the recommendations; this plan was discussed with BCRES staff and is an integral part of this report.

II. MAIN CONCLUSIONS AND RECOMMENDATIONS

A. Transactions in Financial Derivatives

9. The technical assistance mission on balance of payments and IIP was intended to work, along with DBP staff, with institutions providing information in order to disseminate the information requirements for external statistics.
10. The mission held meetings with: the CSC; five banks: Banco Agrícola, Citibank, Scotiabank, Banco de América Central, and Banco Davivienda; the airline company Avianca (Taca); and the CONSAA:
 - The CSC. The meeting was held with Mr. Tomás Bonilla, Chief of Economic Studies, and Mr. Alexis Rivera, Administrative and Financial Chief. During the meeting, it was noted that the CSC is an autonomous institution with a board that includes Ministers of the Economy, Agriculture, and Finance; the President of the BCRES, and the private sector. In addition to defining the country's coffee policy, it provides services to the sector such as information on coffee prices on the exchange; world supply and demand conditions; quality control; and coffee promotion with participation at fairs and other events. El Salvador's coffee production represents 1.5 percent of GDP and between 10 percent and 12 percent of agricultural production. Production amounts to 1.8 million quintals with close to 20,000 producers and 105,000 permanent workers a year. Producers pay a daily wage of US\$4.00 plus food and transportation. As for seasonal workers, it was noted that in the eastern part of the country, which uses 20 percent of the total number of workers, workers are employed from Nicaragua and Honduras at an estimated rate of 10 percent. No taxes are accrued given the salary levels paid. The CSC also stated they are unaware of the existence of financial derivatives related to coffee prices although it is possible that export companies are operating with this type of instrument.
 - The following five banks: Banco Agrícola, Citibank, Scotiabank, Banco de América Central, and Banco Davivienda. The banks visited by the mission noted that the SSF's chart of accounts does not have a slot for recording financial derivatives. For this reason, one bank doing an interest rate swap records the flows as accounts receivable and accounts payable and includes a note to its financial statements in the report for the SSF. Another bank reported that it receives requests for derivatives as interest rate protection and contacts its foreign partners to provide the product for this purpose. The mission recommended the following actions with respect to the recording of financial derivatives: (i) visit the principal sugar and coffee exporters to identify financial derivatives related to commodities prices; (ii) periodically review the notes to the financial statements of financial institutions to identify transactions with financial derivatives; and (iii) review and confirm the survey responses of the most important companies with regard to transactions in financial derivatives.

- Airline company Avianca (Taca Internacional-El Salvador). The meeting was held with Mr. Arnulfo Avelar, Vice President of Financial Operations, and Mr. Luis Abarca, Revenue and Tax Accounting Manager. A brand merger was noted in which the Avianca brand name was adopted for the entire group of related companies. Also noted was that following public offerings on the exchanges in Colombia (2011) and New York (2012), the Taca Internacional-El Salvador company reports directly to the holding company Taca S. A. (Panama) and indirectly and ultimately to Avianca Holdings S. A. with headquarters in Panama. Because the company is listed on the exchange, the company's information is public. The officials provided the website where the financial statements and other company information (the share issue prospectus, the report to the New York exchange (F20), and the consolidated financial statements) can be found. It was also noted that the company has debts, primarily with local banks, although there may also be debt with foreign banks. It was noted that its aircraft leasing is primarily operational in nature. They (primarily the holding company) also operate with financial derivatives both for interest rates and commodities (fuel) prices. Airlines in the region such as LACSA (Costa Rica) and Taca-Perú would be fellow enterprises. They have services (accounting, administrative, etc.) transactions with fellow enterprises that generate income and expenditures. The company has permanent, but not temporary, foreign personnel. The mission and the BCRES technical counterpart emphasized the importance of the company's regular reporting of information regarding its financial accounts given that to date only Taca Internacional-El Salvador has been providing information on income and expenditures related to its operations with nonresidents. The company was asked to complete the form for the survey of direct investment companies on a quarterly basis; the request was accepted although the DBP should make this request formally.
- CONSAA. The meeting was held with Mr. Julio Ángel Castro, Executive Director. CONSAA is a government entity primarily concerned with granting sales allocations on the domestic market and authorizations for exports of sugar and molasses to markets in the United States, Europe, and Taiwan, for which there are export quotas. On the subject of financial derivatives, he was unaware of data on such instruments and suggested meeting with an official from one of the main sugar marketing companies. The industry currently produces 15.7 million quintals of sugar and employs about 250,000 workers. On the subject of temporary workers from other countries, it stated that workers came from Nicaraguan seven years ago, but have not done so in recent years. They operate six mills (which also market the product) and 7,500 sugar-cane producers, including cooperatives. The minimum agricultural salary paid is about US\$4.00. Food and other facilities are provided.

Recommendations:

- *Regarding **financial derivatives in commodities**: As indicated by the CSC, there are probably financial derivatives transactions related to the marketing of coffee. The recommendation is to conduct an informative interview with the expert on the subject in that sector.*
- *Regarding the **financial derivatives of financial sector institutions**: Do periodic reviews of the notes to the financial statements of financial sector institutions in order to identify possible financial derivatives operations in other institutions in future.*
- *Regarding the **financial derivatives of the nonfinancial private sector**: Confirm with the most important private sector enterprises the response to the item on financial derivatives given that one bank indicated that it receives requests for these products for interest rate protection, in particular, and refers these requests to its overseas partners.*

B. Compiling and Recording the Secondary Income Account

11. The mission reviewed the practical aspects of compiling and recording the main components of the secondary income account: personal transfers, current taxes on income, wealth, etc.; social contributions; social benefits; net premiums on nonlife insurance; nonlife insurance claims; current international cooperation (government and private grants); and miscellaneous current transfers.

12. The DBP currently prepares the table of secondary income according to *BPM6* guidelines. Annex I presents figures for 2012, 2013, and the first quarter of 2014, showing the various components. However, a review of the figures and components indicates some adaptations and adjustments are needed to improve methodological and practical aspects of compilation.

13. The DBP determines the figure for workers' remittances (remittances) based on administrative reports (daily vouchers) sent each month by banks, remittance companies, cooperative federations, and telephone companies (Tigo Money and reloads). Some supermarkets and drugstores make remittance payments on behalf of the banks. There is also information from telephone companies that pay remittances, (e.g., Tigo Money), or reload cell phones (talking balances). The DBP also obtains additional information from the Balance of International Transactions (BIT).

14. In calculating remittances, the DBP excludes between 0.3 percent and 0.8 percent of the amounts reported by the banks that exceed US\$500 and are recorded under other BIT items (whether because they are more than US\$500 or because they are under the name of companies). The DBP has information from the banks based on payment vouchers referring to electronic transfers that break down amounts up to US\$500 recorded under remittances and larger amounts recorded under other BIT items and in the miscellaneous current transfers

item of the secondary income account. For the cash portion of remittances, the DBP makes a variable adjustment that for 2012 and 2013 was at 4.7 percent; this is obtained from the survey on remittances conducted by the DBP. This percentage seems reasonable given that the cost of sending remittances to El Salvador is relatively low, at about US\$5 for a remittance of US\$500.

15. On this subject, the mission met with Mrs. Claudia María López Novoa, Director of Treasury, Mrs. Delmy Lorena Aguilera Torruella, Exchange Rate and Correspondents Desk Manager, Mr. Horacio Eguizabal, Market Risks Manager, and Mr. Edgardo Antonio Aguilar Cruz, Interest Rate Desk Manager, officials of the Banco Agrícola. At the meeting, in addition to the subject of financial derivatives mentioned in paragraph 10, the subject of remittances sent through informal channels was discussed. The Banco Agrícola officers mentioned that the bank is a remittance paying agent under an agreement with a remittances company in the United States and they believe that remittances sent through informal channels such as messengers (*encomenderos*) have declined. One of the reasons for this change would be the decline in the cost for sending remittances, due to increased competition in the sector, which has led to a current rate of US\$5 for a remittance of US\$500.

16. The DBP conducts a biennial survey on remittances at El Salvador's five consulates in the United States. The last survey was conducted in 2012. The DBP explored the subject of in-kind remittances and estimated a figure of US\$298.6 million for 2012, which represents approximately eight percent of the amount of cash remittances. The estimate is based on question number 5 of module III in the survey form: household remittances in kind, which specifies: "How much did you pay for household remittances of new goods sent?"

17. However, this estimated amount for in-kind remittances was not adjusted to the total remittances figure given that the DBP expects to corroborate the estimates during the next remittances survey that will occur in 2014. The 2012 survey covered 888 people; their responses and the expansions done for a population of 1.4 million Salvadorans in the United States would indicate that nearly 70 percent use remittances.

Recommendations:

- *With respect to **cash remittances**: Process the payment vouchers sent by the banks and other remittance paying entities for amounts exceeding US\$500 and add the resulting amounts to the current amounts of workers' remittances to obtain total personal transfers.*
- *With respect to **in-kind remittances**: Confirm the estimated amount of in-kind remittances currently available in the first remittances survey and add the amount of cash remittances to obtain the total amount of household remittances.*

18. The basic source for government grants-credit is the report that the General Directorate of Development Cooperation, a division of the Ministry of Foreign Relations,

sends to the DBP each quarter. The DBP also conducts the quarterly survey of grants received from abroad for nongovernmental organizations (NGOs) and government institutions. There are currently 137 reporting institutions, including NGOs, churches, and government institutions. As for the classification of government grants, the DBP currently classifies under the current international cooperation item of the secondary income account only grants from international organizations. It was recommended that bilateral aid be included under the international cooperation item as well, given the similarity of the aid received. In the case of the private sector, currently grants received are classified by recording aid from some multilateral organizations under the current international cooperation item and the rest under other current transfers. For practical purposes, it was recommended that all grants of this kind be included under the current international cooperation item given the similarity of the aid provided.

19. The DBP also uses supplemental information from the BIT to estimate the grants figures, avoiding duplicate entries in any case. In some cases, the BIT has allowed the DBP to expand the survey to identify and include new NGOs. The DBP also uses the grants survey as a base for determining the distinction between current and capital transfers given that it contains slots for these items. The Fomilenio¹ resources are an important component of capital transfers. With respect to the debit side of the grants item, the DBP does not currently record data for the government in the balance of payments.

20. In the case of the private sector, the DBP uses the BIT to calculate a total that is recorded under the miscellaneous current transfers item. However, this total includes personal transfers and transfers to NGOs so that the breakdown of these two items and the corresponding reclassification is important.

Recommendation:

- *With respect to **grants-credit**: For practical purposes, include the entire amount of grants received by the government (government grants) and those received by NGOs under the secondary income item: current international cooperation.*
- *With respect to **miscellaneous current transfers**: (i) break down the miscellaneous current transfers item to identify household remittances, transfers to NGOs, and other transfers; and (ii) record the household remittances identified under the personal transfers item; transfers to NGOs under the current international cooperation item; and other transfers under the miscellaneous current transfers item.*

¹ The Millennium Challenge Corporation is a cooperation agency of the United States that helps to combat poverty on a global scale and promotes economic growth. El Salvador was the beneficiary of an initial compact called Fomilenio I, which has been implemented in the northern area of the country and represented donated resources amounting to US\$461 million over the period 2007–2012. In December 2011, the Corporation announced that El Salvador had again been selected as eligible for application of a second grant called Fomilenio II (Source: Technical and Planning Secretariat of the Office of the President of the Republic of El Salvador and BCRES).

21. With respect to the estimates of the social benefits item, the DBP has successfully identified pension amounts received by residents of El Salvador who worked in the United States, which were detected in the BIT based on the payment vouchers sent by the banks. Annex I shows the amounts received in benefits for 2012, 2013, and the first quarter of 2014, which are later adjusted with a reverse entry under the adjustment for change in pension entitlements item, in accordance with *BPM6* guidelines (paragraph 12.38).

22. With respect to the net nonlife insurance premiums and claims items, the figures are based on the calculations that the DBP performs to determine insurance services transactions in accordance with the *BPM6*. The DBP also estimates data for net freight insurance premiums and claims for imported merchandise, which are obtained by applying a ratio to the value of freight insurance coming from customs. That ratio links claims and premiums for land, air, and maritime transportation based on information from resident insurance companies' financial statements. Given that nonlife insurance operations refer to reinsurance policies taken and granted, and not to direct insurance operations, it was still not possible to obtain data on technical reserves positions and transactions broken down by residents and nonresidents although there have been consultations with the insurance companies to obtain these data or to estimate them.

23. With respect to the compensation of employees item (primary income item that links to secondary income through the supplementary item current taxes on income payable by border and seasonal workers), the DBP only has data on the incomes of local personnel who work in the embassies and international organizations operating in El Salvador. The data are obtained from the balance of payments survey and the Salvadoran Social Security Institute. For outflows to pay local personnel abroad, information from the Ministry of Foreign Relations is used.

24. In this respect, currently the DBP does not have estimates on seasonal workers' compensation. During the mission, there were visits to the CSC and CONSAA and some data were obtained to make these estimates during these meetings.

25. In the case of the CSC, the data contained in paragraph 10 made it possible to calculate the estimates presented in Table 1 for outlays for seasonal workers in the coffee harvest. It was agreed that the DBP will confirm these data and include them under the appropriate items of primary income, secondary income, and travel accounts in the balance of payments. The DBP will also confirm the information provided by the CONSAA on the absence of seasonal workers in the sugar harvest (paragraph 10).

Recommendation:

With respect to the estimates of temporary workers' transactions: (i) review and complete the exercises developed during the mission regarding income and expenses of temporary workers employed in the coffee and sugar harvests; and (ii) include the estimates in the

appropriate items of the primary income, secondary income, and travel accounts of the balance of payments.

Table 1. Estimate of Outlays by Seasonal Workers

Coffee	%	
Total number of jobs		150,000
Total number of jobs in the eastern sector	0,2	30,000
Nonresident workers	0,1	3,000
Net income (US\$ per day)		4.30
Income tax		0.00
Food		1
Transportation		1
Gross income (US\$ per day)		6.30
Number of days worked		120
Total gross outlay		2,268,000
Source: CSC database		

26. Annex I presents preliminary figures taking into account some adjustments that the DBP must make as part of the action plan recommendations such as classifying all grants for both the government and the private sector under the international cooperation item; reclassifying various transfers-debit to workers' remittances; and adjusting for change in pension entitlements on the debit side as an adjustment to benefits received.

C. Data Consistency Tables of Enterprises Operating in Free Trade Zones

27. The mission reviewed the consistency exercises developed by the DBP for the principal enterprises operating in the free trade zone. Following the recommendations made by the October 2013 mission, the DBP updated the exercises for 2013 and the first quarter of 2014 based on data from the survey conducted on free zones enterprises (survey of foreign investment enterprises and/or enterprises with participation abroad-*maquila*) and foreign trade data. In addition, visits were made at the beginning of the year to eight enterprises that provide manufacturing services on physical inputs owned by others (manufacturing services or *maquila*) to reiterate the importance of providing information, identifying manufacturing services, and correcting data from previous quarters. Thus, so far, the DBP has visited 43 enterprises operating in the free trade zone, achieving coverage of 85 percent of the total value of foreign trade. The visits will continue until reaching coverage of 90 percent.

28. The mission also reviewed the form for the survey of foreign investment enterprises and/or enterprises with participation abroad intended for manufacturing services (*maquila*) enterprises. That survey contains slots (*aperturas*) for services transactions abroad; transactions related to *maquila* services; and transactions and balances on assets and

liabilities abroad. In the portion of transactions related to maquila service there are slots to differentiate between commodities owned by the enterprise and commodities owned by the parent company in addition to the different expenses incurred in the manufacturing process and admission for manufacturing, processing, assembly, packaging services, etc. (*maquila*). The DBP's plans include the preparation of an explanatory guide on how to complete the form.

29. The DBP noted that enterprises do not necessarily respond to the survey with data on exports and imports because in some cases the form is completed by the enterprise's financial section, which provides data on the billing of purchases and sales. Thus, in some cases, differences may be generated that are probably based on lags between the invoice dates and the corresponding foreign trade documents rather than on inconsistencies in the information. It was emphasized that in any case the DBP follows up and confirms the data provided by the enterprises and the foreign trade data, asking for the corresponding clarifications in cases where the discrepancies are significant.

30. Thus, the DBP takes care to ensure the consistency of information among the different sources to which it has access, such as data from the enterprises (based on earnings statements and the general balance sheet); customs data; data from the Import and Export Processing Center; data from the BIT (recording, for example, the entry of cash that the parent company sends via bank deposits); and the surveys conducted by the DBP, primarily the survey of direct investment.

D. Coordinated Direct Investment Survey

31. Although El Salvador is now reporting data to the CDIS, there are some topics that need review as detailed below. The mission reviewed the progress made by the DBP in implementing the recommendations made by the April 2014 mission on the CDIS.

32. In particular, the DBP has increased the coverage of enterprises in the surveys on foreign investment (received and abroad), as well as domestic enterprises with external debt. The DBP has contacted enterprises it hopes will resume reporting data. During the mission, a meeting was held with the most important national airline (see paragraph 10), which although it reported data on services exports and imports, did not report data on its financial assets and liabilities. As for strengthening the respective legal provisions, the DBP noted that the regulation under Article 64 of the BCRES Law, which requires reporting of data by the public and private sector, is under consideration by senior levels of the BCRES. It has also been possible to identify new enterprises with foreign direct investment (FDI) through the BIT.

33. The data on direct investment liabilities balances in the case of El Salvador are based on information from the quarterly survey of foreign investment enterprises and/or enterprises with participation abroad, which is sent to banks, enterprises engaged in maquila activities, and the rest of enterprises. The survey form is also used to compile data on direct investment

assets. The directory of enterprises currently includes 418 enterprises called active (i.e., those that regularly report data to the DBP), which primarily includes banks and maquila enterprises. There is a second group of enterprises that are known to be in operation but have ceased to report to the DBP; these amount to 117 enterprises. Finally, there is a third group of 98 enterprises the current condition of which is unknown (i.e., whether or not they are in operation). Table 2 shows the three groups of enterprises and the amounts assigned to each of them based on balances, as of December 2013, in foreign direct investment liabilities.

Table 2. Class of Enterprises with Foreign Direct Investment Liabilities

	Number of Enterprises	Millions of US\$
Active enterprises with reporting	418	7,155
Active enterprises w/o reporting	117	1,053
Inactive enterprises	98	665
Total	633	8,873
Source: BCRES.		

34. For the enterprises in the second and third group, the DBP has retained their FDI liabilities balances. Thus, it was considered necessary to review the status of these enterprises in order to eliminate those that are no longer in operation and to update the net asset balances of those that are still in operation.

35. Another recommendation from the April 2014 mission was to investigate among resident enterprises that have foreign equity participation and that are known to channel flows of funds through a holding company in the country, whether the information they submit to the DBP represents the holding company alone or includes the other enterprises in the group. The DBP was also asked to determine in each case the best way to ensure there is no duplication and if possible to obtain sectoral information.

36. In this respect, the mission and the technical DBP counterpart conducted an exercise for the three most important financial groups by comparing data reported to the DGP on the assets of both the holding company and each of its components. It was agreed that the DBP will review the data from the exercise, which will be used as the basis for the visits it plans to make to the principal financial sector holding companies to clarify the accounting records and the nature of the figures they report in the balance of payments survey and to avoid duplicate entries in the amounts of direct investment liabilities positions.

37. Prior to the visits, it will also be important for the DBP to investigate the existing regulations for the establishment and operation of financial sector holding companies, which are called: financial investments or exclusive purpose holding companies.

38. On the subject of the distribution of earnings, the DBP has data on accrued dividends or dividends declared payable, the amounts of which are adjusted in the enterprises' net worth under the cumulative undistributed earnings item, in the case of enterprises that report to the survey on foreign direct investment.

39. With respect to direct investment assets, the DBP figures and the figures published in the CDIS were again reviewed, confirming the fact that while the national source captured through the balance of payments surveys shows insignificant figures, the CDIS shows sizeable figures. In this regard, it was agreed that the DBP will evaluate the possibility of using the CDIS data for direct investment assets while the national source is being strengthened.

Recommendations:

- ***With respect to direct investment liabilities:*** Implement the actions agreed upon to improve the current estimates of FDI liabilities positions, particularly reviewing and completing the exercise conducted during the mission on determining the assets of the three most important financial sector holding companies in order to clarify the positions of the shareholders as reported in the FDI survey in order to avoid duplications in the amounts of the FDI positions: (i) investigate the current regulations on the establishment and operation of holding companies (financial investments or exclusive purpose holding companies) in the financial sector; (ii) review and complete the data from the exercise conducted during the mission on determining the assets of the three most important financial groups; (iii) visit the principal financial sector holding companies to clarify the accounting records and the nature of the figures reported in the balance of payments survey in order to avoid duplication of the amounts of direct investment liabilities positions, based on the revised figures from the exercise conducted during the mission; and (iv) review the status of the inactive enterprises for which FDI liabilities balances are maintained in the IIP, identifying those that are no longer active and making the corresponding adjustments in the balance of payments and the IIP.
- ***With respect to direct investment assets:*** evaluate the possibility of using data (reported by other countries) from the CDIS for direct investment assets while the national source is being strengthened.

E. Coordinated Portfolio Investment Survey

40. With respect to the CPIS, the mission reviewed the progress made by the DBP in implementing the recommendations from the April 2104 mission, which referred primarily to pursuing further research to evaluate the information available for the CPIS and following up on the submission of information already promised by the SSF and the Central Securities Depository (CEDEVAL).

41. With respect to formalizing the request to the SFF seeking information on foreign securities holdings, in May 2014 the DBP sent the related request to submit data as of the first quarter of 2014 using the form designed during the April 2014 mission. It is awaiting the information.

42. With respect to monitoring the CEDEVAl's response to the request to expand information as suggested during the mission, the DBP is currently receiving information on securities holdings of residents compared to nonresidents that are registered with local brokers. In addition to the earlier information that included debt securities as of the first quarter of 2014, CEDEVAl is also providing information on shares and equity securities at nominal value. It also provides the ISIN number.

43. The mission and the DBP technical counterpart reviewed the portfolio investment assets figures by institutional sector for December 2013 and March 2014 that are shown in Table 3. As can be seen, the main holder of instruments issued by nonresidents is the BCRES, and these instruments form part of the international reserves. The financial sector and nonfinancial private sector hold portfolio investment assets to a lesser extent.

Table 3. Portfolio Investment Assets Balances
(In millions of US\$)

	December 2013	March 2014
BCRES		
Securities recorded in international reserves	2,067.6	2,317.1
Banks	57.6	57.2
Nonfinancial private sector	45.0	71.7
Total	2,170.2	2,446.0
Source: BCRES.		

44. The mission and the DBP technical counterpart reviewed the CPIS site and the content of the forms for securities held as foreign exchange reserves (SEFER) and CPIS. With respect to securities held as foreign exchange reserves, the SEFER survey template is used; it includes a breakdown by issuing country and the distinction between shares and equity and debt securities (short- and long-term). The SEFER survey is confidential so that the data are disclosed in the CPIS in aggregate form for all the countries (i.e., countries are not individually identified).

45. The DBP should repeat the request made to the SSF regarding information on foreign securities holdings (shares and equity and debt securities, distinguishing between short- and long-term) of the financial system (including insurance companies), identifying the country of origin of the issuer of the instruments.

46. The mission also reviewed the content of Tables 1 and 3 of the CPIS that must be completed and the questions and content of the metadata form that must be completed.

47. The DBP's compliance with the recommendations agreed upon will allow El Salvador to begin reporting portfolio investment assets data to the CPIS in the first half of 2015.

Recommendation:

- **With respect to the CPIS:** For compiling the CPIS, implement the actions agreed upon, particularly asking the SSF for information on foreign securities holdings and issuing country with respect to banks, insurance companies, and other financial institutions in order to complete Tables 1 and 3 of the CPIS and the corresponding metadata: (i) ask the SSF for information on foreign securities holdings (shares and equity and debt instruments, distinguishing between short- and long-term) of the financial system (including insurance companies), identifying the country of origin of the issuer of the instruments; (ii) complete Tables 1 and 3 and the metadata of the CPIS; and (iii) begin to report portfolio investment assets data to the CPIS.

III. OTHER TOPICS

48. Other topics discussed during the mission include the DBP technical counterpart's request for a review of the methodology for recording manufacturing services on physical inputs owned by others (manufacturing services) according to the guidelines of the *BPM6* and the *Manual on Statistics of International Trade in Services, 2010*. The exercise for Box III.2 was reviewed: recording of manufacturing fees, the data for which are shown in Table 4. The box emphasizes that considering the difference between foreign trade values [goods sent for processing and goods after processing] as manufacturing services is incorrect given that in addition to the processing fees that represent the manufacturing services there may be other items such as holding gains and overhead. In the example in Table 4, while the difference in foreign trade values is 300, the processing service is only 120.

Table 4. Sample Calculation of Manufacturing Services

a. Import of commodity without change of ownership	1,000
b. Holding gains	80
c. Overhead	100
d. Processing fees	120
e. Value of final goods (export)	1,300
f. International trade difference (e-a)	300
g. Manufacturing services (d)	120
h. Manufacturing services as a % of the value of final goods (g/e*100)	9.2

Source: *Manual on Statistics of International Trade in Services, 2010*.

49. In the case of El Salvador, the form used for the survey of maquiladora companies includes the item: entries for manufacturing, processing, assembly, packaging services, etc. (maquila) which is what manufacturing service measures. The DBP also has the breakdown of other expenses that make up the difference between the imported value of the commodity (without change of ownership) and the total value of the final exported product. During the October 2013 mission, in the context of exercises developed on consistency of the source data used by the DBP, exercises were conducted for the most important enterprises in the sector, identifying in the enterprises' earnings statements the fee or admission that enterprises charge for processing and that represents the manufacturing service.

50. Based on a CAPTAC-DR presentation on financial derivatives, the mission also conducted in conjunction with the DBP technical counterpart a review of concepts and recording in the balance of payments and the IIP of forward-type contracts and options. This activity is related to the meetings held with the banks and other institutions during which the possibility that they are engaging in financial derivatives operations in El Salvador was mentioned (see paragraph 10).

51. Finally, it should be noted that one of the recommendations from the April 2014 mission was to investigate the structure of the large enterprise groups operating in the country, particularly the Poma Group and Avianca-Taca because the provision of information is limited in both cases and any request to supplement the information must be based on a thorough understanding of the structure of each group. In this respect, the DBP met with officials of the Avianca-Taca group, as detailed in paragraph 10.

Annex I. Secondary Income Items

	2012		2013		1 st Qtr 2014	
	Credit	Debit	Credit	Debit	Credit	Debit
1.C Secondary income	4,153.9	143.1	4,202.3	114.9	1,038.0	26.7
1.C.1 General government	34.0	0.0	26.7	0.0	1.7	0.0
<i>1.C.1.1 Current taxes on income, wealth, etc.</i>		n.a.		n.a.		n.a.
<i>Of which 1.C.1.1.1 Payable by border, seasonal, and other temporary workers</i>		n.a.		n.a.		n.a.
<i>1.C.1.2 Social contributions</i>		n.a.		n.a.		n.a.
<i>Of which 1.C.1.2.1 Payable by border, seasonal, and other temporary workers</i>		n.a.		n.a.		n.a.
<i>1.C.1.3 Social benefits</i>	n.a.		n.a.		n.a.	
<i>1.C.1.4 Current international cooperation</i>	34.0		26.7		1.7	
<i>1.C.1.5 Miscellaneous current transfers of general government</i>						
<i>Of which 1.C.1.5.1 Current transfers to NPISHs</i>						
1.C.2 Financial corporations, nonfinancial corporations, households, and NPISHs	4,119.9	133.5	4,175.6	102.8	1,036.3	23.5
1.C.2.1 Personal transfers (current transfers between resident and nonresident households)	3,893.8	44.8	3,953.6	33.4	989.1	8.4
<i>Of which 1.C.2.1.1 Workers' remittances</i>	3,893.8	44.8	3,953.6	33.4	989.1	8.4
1.C.2.2 Other current transfers	226.1	88.7	222.0	69.4	47.2	15.1
<i>1.C.2.0.1 Current taxes on income, wealth, etc.</i>	n.a.		n.a.		n.a.	
<i>1.C.2.0.2 Social contributions</i>						
<i>1.C.2.0.3 Social benefits</i>	9.6		12.1		3.2	
<i>1.C.2.0.4 Net nonlife insurance premiums</i>	18.1	70.6	11.8	57.6	2.6	12.5
<i>1.C.2.0.5 Nonlife insurance claims</i>	70.6	18.1	57.6	11.8	12.5	2.6
<i>1.C.2.0.6 Current international cooperation</i>	127.8	0.0	140.5		28.9	
<i>1.C.2.0.7 Miscellaneous current transfers</i>						
<i>Of which 1.C.2.1.1 Current transfers to NPISHs</i>						
1.C.3 Adjustments for change in pension entitlements		9.6		12.1		3.2

n.a. = not applicable. Source: BCRES.