

SEMINAR ON FINANCIAL REFORM AND REGIONAL COOPERATION
Arequipa, Peru – March 1996

(TC-95-08-09-7-RG)

EXECUTIVE SUMMARY

REQUESTER: Latin American Association of Development Financing Institutions [Asociación Latinoamericana de Instituciones Financieras de Desarrollo] (ALIDE)

EXECUTING AGENCY: ALIDE

BENEFICIARIES: The Bank's regional member countries

FINANCING:

IDB: (local Peruvian currency)	US\$100,000 (FSO)
Local contribution:	US\$ 50,000
Total:	US\$150,000

TERMS:

Execution period:	6 months
Disbursement period:	6 months

ENVIRONMENTAL CLASSIFICATION: The plan of operations was approved by the Environment Division without comment.

OBJECTIVES: The objectives of the seminar are: (i) to analyze and define key considerations in shaping an overall development financing policy for Latin America and consolidating processes to liberalize and open up economies; (ii) to examine the role of outside financial cooperation in support of national development strategies; and (iii) to exchange experiences relating to the management, solvency and efficiency of financial institutions, within the context of regional integration and economic globalization.

DESCRIPTION: The topics to be discussed at the seminar are: (i) Liberalization policies and processes and financial reforms. Institutional framework. Experiences. New issues and challenges. (ii) Complementarity and financial and technical cooperation in the Latin American banking community. Current situation. International experiences applicable to the region. New financial products and services. Cofinancing and coinvestment operations. (iii) Financial management for solvency and efficiency in development banking. Credit policies. Portfolio rating. Policies on capital adequacy and reserves. Investment policy. (iv) Bank supervision in the context of regional integration and globalization. Regulatory considera-

tions. New techniques to be developed. Prospects for the future.

Approximately sixty persons are expected to attend the seminar, representing: (i) institutions or agencies responsible for defining public sector financial policy; (ii) banking and financial institutions (central banking, commercial banking and development banking); and (iii) bank supervision and oversight agencies.

For each of the topics on the agenda there will be a main speaker, as well as two or three panelists who will describe their institutional experiences and offer comments on the main paper.

The seminar will be organized by the General Secretariat of ALIDE, with the support of Corporación Financiera de Desarrollo S.A. (COFIDE) of Peru.

BENEFITS:

It is felt that participation by those having direct responsibility for managing these issues will be conducive to creating an atmosphere in which expertise, past experience, and conceptual efforts can be brought to bear to determine steps toward strengthening and modernizing overall development financing policy for Latin America.

This will serve to open up new opportunities for the design and consolidation of projects and initiatives which the Bank could potentially finance in these fields, along with others where operations are already in the process of preparation. Exploring solutions to these problems jointly with the Bank will unquestionably make an important contribution to the future of development banking in Latin America.

RISKS:

The only risk involved in this operation would be the lack of attendance by a significant number of participants from the region. In this respect, ALIDE is already working to ensure participation by all the regional member countries.

Since the seminar is being organized and designed by ALIDE, and given the very high caliber of the participants, it is felt that the operation will not generate foreseeable logistical risks. While it is true that there will be some difficulty in achieving a consensus on certain very specific controversial issues that cannot easily be resolved in such a short time, this is a unique opportunity for wide-ranging dialogue and reflection on the role of development banking in Latin America.

I. BACKGROUND

- 1.1 The key concern of the countries of Latin America and the Caribbean in recent years has been how to grow, or how to resume growth, after a long period of recession and/or sluggish growth. They have persevered in their efforts to open their economies further and to achieve greater productivity and competitiveness. In this endeavor they have coincided in applying adjustment policies and structural reforms that reflect a new way of viewing growth and economic development.
- 1.2 The processes of liberalization and financial reform undertaken by the majority of the countries in the region have had three major thrusts: (i) to stimulate domestic savings and promote financial deepening to encourage efficient channeling of such funds into productive investments; (ii) to deregulate financial activities, increasing flexibility and intensifying supervision; and (iii) to promote the modernization of financial institutions to enable them to respond in timely, efficient fashion to the requirements of producing agents.
- 1.3 Within ALIDE, the introduction of financial reforms has given rise to reflections and proposals on the direction to be taken and the functions to be served by the development banks, many of which were originally designed by the governments as instruments for the promotion and financing of priority producing sectors. Thus, in 1992 and 1993 ALIDE coordinated a regional research initiative on the role of the development banks in a context of financial liberalization. The findings were published in August 1993.
- 1.4 In an effort to promote the integration of the countries of Latin America and the Caribbean with a globalized international economy, national financial systems have been opened up to the international market, thus giving the countries of the region renewed access to the foreign capital flows that had dried up in the eighties because of the Latin American debt crisis.
- 1.5 In recent years, as part of the financial reforms set in motion in Latin America, bank supervision authorities in several of the region's countries have adopted new regulatory guidelines aimed at preserving the solvency and stability of financial institutions.
- 1.6 Given the importance of measuring the efficiency and solvency of development banks, ALIDE conducted a study to determine the applicability to development financing institutions of general standards on risk-based capital levels deriving from international agreements on bank solvency (Basle Agreement), and to examine the criteria to be taken into account in assessing the overall efficiency of development financing institutions.

- 1.7 In October 1994, ALIDE and the Inter-American Development Bank signed a General Cooperation Agreement aimed at establishing a flexible, dynamic general framework of cooperation between the two parties, with a view to securing maximum benefits for the region.
- 1.8 At the first meeting of the Liaison Group provided for in the General Cooperation Agreement, which was held in Washington, D.C. in July 1995, the analysis of financial reform and regional cooperation was deemed to be a topic of joint interest for the IDB and ALIDE, and it was proposed that a seminar be held in Arequipa, Peru, in March 1996.

II. OBJECTIVES

- 2.1 The objectives of the seminar are: (i) to analyze and define key considerations in shaping an overall development financing policy for Latin America and consolidating processes to liberalize and open up economies; (ii) to examine the role of outside financial cooperation in support of national development strategies; and (iii) to exchange experiences relating to the management, solvency and efficiency of financial institutions, within the context of regional integration and economic globalization.

III. RESULTS

- 3.1 The seminar is expected to produce the following results:
 - a. Identification of elements to serve as guidelines in drafting policies on liberalization and financial reforms.
 - b. Exchange of experiences with instruments and mechanisms to promote and facilitate complementarity and financial and technical cooperation among Latin American banks.
 - c. Proposals of innovative bank management policies and practices, with a special emphasis on modernization and competitiveness and regulatory aspects of development financing institutions.
- 3.2 The papers presented, together with any comments and discussion raised at the seminar, will be compiled by ALIDE and the IDB in a publication for distribution throughout the region.

IV. DESCRIPTION

A. Agenda

4.1 In view of the objectives, it is suggested that the following topics be discussed at the seminar:

- a. Liberalization policies and processes and financial reforms. Institutional framework. Experiences. New topics and challenges.
- b. Complementarity and financial and technical cooperation in the Latin American banking community. Current situation. International experiences applicable to the region. New financial products and services. Cofinancing and coinvestment operations.
- c. Financial management for solvency and efficiency in development banking. Credit policy. Portfolio rating. Policies on capital adequacy and reserves. Investment policy.
- d. Bank supervision in the context of regional integration and globalization. Regulatory issues. New techniques to be developed. Prospects for the future.

B. Methodology

4.2 Approximately sixty people are expected to attend the seminar, representing:

- a. Institutions or agencies responsible for defining public sector financial policy.
- b. Banking and financial institutions (central banking, commercial banking and development banking).
- c. Bank supervision and oversight agencies.

4.3 For each of the topics on the agenda (see Annexes I and II), there will be a main speaker as well as two or three panelists (see Annex III) who will present their institutional experiences and offer comments on the main presentation.

C. Organization

4.4 The meeting will be organized by the General Secretariat of ALIDE with support from Corporación Financiera de Desarrollo S.A. (COFIDE) of Peru.

D. Place and date

- 4.5 The seminar will be held in Arequipa, Peru, over a period of two days in the second or third week of March 1996.

E. Monitoring and reporting

- 4.6 The Bank's technical monitoring of this project will be the responsibility of DPP/POL and the Country Office in Peru.
- 4.7 The executing agency is to remain in contact with the project team (DPP/POL and INT/RTC) and submit the following reports for consideration by the Bank:
- a. Final report. Within three months after the seminar ends, a summary report with a list of activities carried out and results obtained compared to goals set.
 - b. Financial report: Within 90 days after the last disbursement, a report on the specific use made of the Bank's contribution. This report is to be audited by an independent public accountant approved by the Bank.

F. Cost and financing

- 4.8 The Bank's contribution will be the equivalent of US\$100,000 in local Peruvian currency, charged to the net income of the Fund for Special Operations. ALIDE will contribute US\$50,000 by way of local counterpart funding.
- 4.9 Airfare and per diems have been estimated in accordance with prevailing Bank policy, whereby only coach fares are paid and per diems are those paid to Bank officials sent on mission.
- 4.10 Based on the amounts budgeted, the Bank will finance the expenditures attributable to the operation, such as experts' fees, international airfare and per diems, equipment, supplies, and the production and subsequent publication of working papers for the seminar.
- 4.11 ALIDE, for its part, will make its technical and administrative staff available for the seminar, will assume responsibility for promotion of the event, communication expenses, on-site facilities and logistical support and security, and will provide and manage courtesy services to participants (coffee, entertainment, etc.)

4.12 The estimated budget for the seminar is as follows:

TABLE OF COSTS
(in US\$ equivalents)

		IDB	ALIDE	TOTAL
2	CONSULTING	45,000		45,000
2.2	Working papers (4 documents x US\$7,500)	30,000		30,000
	Coordination (3 months x US\$5,000)	15,000		15,000
3	PARTICIPANTS	18,240	4,288	22,528
3.3.1.1	Airfare (INT 12 x US\$1,200) (LOC 8 x US\$ 200)	14,400	1,600	14,400 1,600
3.3.2.2	Per diems (68 x US\$96) (Arequipa, Peru)	3,840	2,688	6,528
6	GENERAL SUPPORT	9,000	35,000	44,000
6.1	Premises		5,000	5,000
6.3	Equipment	4,000		4,000
6.4	Supplies	5,000		5,000
6.6.1	Administrative support		20,000	20,000
6.7	Communications		10,000	10,000
7	PUBLICATIONS	20,000		20,000
7.1	Printing costs	15,000		15,000
7.4	Distribution costs	5,000		5,000
96	DIRECT CONTRIBUTION		10,000	10,000
	Side events		10,000	10,000
98	CONTINGENCIES	7,760	712	8,472
	TOTAL, ESTIMATED	100,000	50,000	150,000

G. Disbursements

4.13 Disbursements will be made in accordance with Bank procedures. Given the nature of the operation, and at the request of the executing agency, it is proposed that a single disbursement be made for the full estimated amount, equal to US\$100,000 in local currency.

V. BENEFITS AND RISKS

A. Benefits

- 5.1 It is felt that participation by those having direct responsibility for managing these issues will be conducive to an atmosphere in which expertise, past experience, and conceptual efforts can be brought to bear to determine steps toward strengthening and modernizing overall development financing policy for Latin America.
- 5.2 This will serve to open up new opportunities for the design and consolidation of projects and initiatives which the Bank could potentially finance in these fields, along with others where operations are already in the process of preparation. Exploring solutions to these problems jointly with the Bank will unquestionably make an important contribution to the future of development banking in Latin America. This event is also expected to generate input for the Bank's policy dialogue with the countries and for country and subregional strategies (CPs).

B. Risks

- 5.3 The only risk involved in this operation would be the lack of attendance by a significant number of participants from the region. In this regard, ALIDE is already working to ensure participation by all the regional member countries.
- 5.4 Since the seminar is being organized and designed by ALIDE, and given the very high caliber of the participants, it is felt that the operation will not generate foreseeable logistic risks. And while it is true that there will be some difficulty in achieving a consensus on certain very specific controversial issues that cannot easily be resolved in such a short time, this is a unique opportunity for a wide-ranging dialogue and reflection on the role of development banking in Latin America.

VI. EVALUATION

- 6.1 In view of the nature of the operation, an ex post evaluation of results is not considered necessary.

VII. ELIGIBILITY

- 7.1 The Bank's Programming Committee, at its December 11, 1995, meeting, indicated its agreement with the general guidelines of the profile submitted for its consideration and authorized the continued analysis and processing of the operation (document CP-850-26).

ANNOTATED AGENDA

1. Liberalization policies and processes and financial reform.
Institutional framework.

Experiences. New issues and challenges.

The process of financial liberalization and globalization of international capital markets into which Latin America has been thrust in recent years, among other things as part of the structural reform processes set in motion, has given needed momentum to economic recovery and modernization in the region. Nevertheless, the high degree of volatility and speculative behaviour seen in the considerable capital flows entering the region during this period, has highlighted the vulnerability of the emerging markets of Latin America and the potentially serious consequences both for the behaviour of national financial systems and the course of economic programs themselves.

Against this backdrop, an analysis of the first item on the agenda will point up the importance of defining considerations seen as key to shaping an overall development financing policy for Latin America designed to consolidate the reforms undertaken. Thus, the presentation is to suggest the framing of policy to mobilize greater financial resources from domestic and foreign sources, on terms and within time periods which are consistent with the needs generated by the modernization of the production and services sectors, in order to adapt them to new conditions and competitiveness requirements arising in the new international environment.

An important consideration in this regard is the need for a sound, modern institutional framework to monitor the implementation of development financing policy in such a way as to lend flexibility to the financial system while strengthening bank supervision and regulation to ensure system stability and promote modern financial institutions.

2. Complementarity and financial and technical cooperation in the Latin American banking community.

Current situation. International experiences applicable to the region. New financial products and services. Cofinancing and coinvestment operations.

The second item on the agenda calls for an analysis of the current situation, the role and directions being taken by complementarity and financial and technical cooperation in the Latin American bank, in the context of our countries' strategies to open up their economies and in support of the structural reforms under way.

In particular, it would be useful to learn about new operating procedures and new financial products and services that have been adopted successfully by financial institutions, with a view to broadening cooperation between banks and between the countries of the region, as well as with banks elsewhere in the world.

In this regard, certain specific instruments favoring financial and economic integration, such as cofinancing and coinvestment, will also be examined.

3. Financial management for solvency and efficiency in development banking. Credit policy. Portfolio rating. Policies on capital adequacy and reserves. Investment policy.

The third item on the agenda relates to the type of financial management needed to ensure that development banks will maintain adequate solvency levels and constantly improve their efficiency, in the context of the deregulated financial markets which are open to the outside world.

In particular, the two aspects of efficiency in development banks will be examined: (i) institutional efficiency, defined in terms of the mission of promoting development, and linked to objectives which are macroeconomic in scope, and (ii) business efficiency, which must meet microeconomic requirements and is measured in terms of the quality of financial, administrative and management operations applicable to any type of bank. Proposals will be presented in connection with bank management, innovative policies and practices to promote modernization and competitiveness among development financing institutions while maintaining adequate levels of solvency. In particular, proposals will be analyzed and drawn up in connection with credit and investment practices, general criteria and standards suggested for portfolio rating, and policies on capital adequacy and reserves. The aim is to enable development banks to fulfill their objective of promoting development while maintaining a sound financial position.

4. Bank supervision in the context of regional integration and globalization. Regulatory issues. New techniques to be developed. Prospects for the future.

It is widely recognized that in a deregulated economy the market takes on a leading role in allocating financial resources as the various instruments of government intervention are phased out or eliminated. This makes bank supervision and prudential regulation crucial in order to optimize the benefits of financial liberalization and minimize the risks involved. The question of bank supervision is a particularly pressing one in the context of financial globalization and regional integration that surrounds the process of financial liberalization in Latin America. Thus, the process of modifying and finetuning traditional systems of bank regulation and supervision will be analyzed in order to come up with a dynamic approach whereby regulation and supervision policies and practices anticipate problems and move to prevent them, in order to avert

financial crises such as the one that swept major Latin American financial markets in early 1995. In this regard, it will be necessary to review the scope and regulation of deposit insurance, the quality and timeliness of information, risk classification systems, restrictions on related-party lending, and regulatory issues relating to the functions of national bank supervision authorities, whereby they are accorded sufficient autonomy and powers. The examination of this item will include an analysis of prospects for the future and of new regulation and supervision arrangements based on incentives rather than restrictions, reflecting the recommendations of the Basle Committee.

PROGRAM OF ACTIVITIES
AGENDA

DAY ONE

- 9:00 a.m. to 10:00 a.m. Opening session
- 10:00 a.m. to 10:30 a.m. Coffee break
- 10:30 a.m. to 12:30 p.m. First plenary session.
- Presentation of Topic I: "Liberalization
 policies and processes and financial reform.
 Institutional framework. Experiences. New
 issues and challenges."
- 10:30 a.m. to 11:30 a.m. Speaker: Roberto Zahler, Chairman,
 Central Bank of Chile
- 11:30 a.m. to 12:00 noon Panelists: Günter Held, Regional Advisor on
 Financial Policies for
 Development, Economic Commission
 for Latin America and the
 Caribbean (ECLAC)
- Germán Suárez, Chairman, Central
 Bank of Peru
- 12:00 noon to 12:30 p.m. General discussion
- 12:30 p.m. to 3:00 p.m. Lunch break
- 3:00 p.m. to 6:30 p.m. Second plenary session
- Presentation of Topic II: "Complementarity
 and financial cooperation in Latin America.
 Current situation. International experiences
 applicable to the region. New financial
 products and services. Cofinancing and
 coinvestment operations."
- 3:00 p.m. to 4:00 p.m. Speaker: Marín Maydón, Director, Banco de
 México
- 4:00 p.m. to 4:15 p.m. Coffee break

ANNEX II

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4:15 p.m. to 5:00 p.m. Panelists: Rodolfo Frigeri, President,
Banco de la Provincia de Buenos
Aires, Argentina

 Marcos Raymundo Pessoa Duarte,
President, Banco de Desenvolvi-
mento de Minas Gerais (BDMG),
Brazil

 Carlos Wolff, President,
Instituto de Fomento Industrial
(IFI), Colombia

5:00 p.m. to 5:30 p.m. General discussion

7:00 p.m. Reception hosted by ALIDE

DAY TWO

9:00 a.m. to 12:30 p.m. Third Plenary Session

Presentation of Topic III: "Financial
management for solvency and efficiency of the
development bank. Credit policy. Portfolio
rating. Policies on capital adequacy and
reserves. Investment policy."

9:00 a.m. to 10:00 a.m. Speaker: Felipe Tami, Special Advisor,
ALIDE

10:00 a.m. to 10:30 a.m. Coffee break

10:30 a.m. to 11:15 a.m. Panelists: Manuel A. Vásquez Perales,
President, Corporación Financiera
de Desarrollo, Peru

 Andrés Sanfuentes Vergara,
President, Banco del Estado de
Chile

11:15 a.m. to 12:30 p.m. General discussion

12:30 p.m. to 3:00 p.m. Lunch break

3:00 p.m. to 5:30 p.m. Fourth Plenary Session

Presentation of Topic IV: "Bank supervision
in the context of regional integration and
globalization. Regulatory considerations.
New techniques to be developed. Prospects for
the future."

3:00 p.m. to 4:00 p.m.	Speaker:	José Roberto Da Silva, Executive Secretary, Asociación de Organismos de Supervisión Bancaria de América Latina (CEMLA)
4:00 p.m. to 4:15 p.m.	Coffee break	
4:15 p.m. to 4:45 p.m.	Panelists:	Regis Bonelli, Vice President, Banco Nacional de Desenvolvimento Econômico e Social (BNDES), Brazil Alfonso Bustamante y Bustamante, President, Asociación de Bancos del Perú
4:45 p.m. to 5:30 p.m.	General discussion	
6:00 p.m.	Closing session	

TERMS OF REFERENCE – PANELISTS

Topic I:

CARLOS A. CORTI, URUGUAY

1. The reformist approach of the early 1980s
2. Post-crisis structural debt reform
 - Adjustment of the financial sector
 - Restructuring of the banking system
 - Reorganization of the regulatory framework
 - Free setting of interest rates
 - Elimination of directed credit
 - Development of capital markets
 - Regulation, supervision, information
3. Financial liberalization and globalization ("risk allocation")
 - The real economy neglected by the financial sector
 - SMEs (miscellaneous experiences)
 - Basic infrastructure
 - Volatility and "speculative" behaviour – vulnerability
4. Development financing policy issues
 - The financial sector as a supplier of capital
 - The financial sector as a disciplining force
 - The financial sector as an agent of multiplier effects
5. Domestic savings – their decisive importance
 - Legal and regulatory advances
6. Foreign investment as leverage

7. The inevitable future – the growing role of the capital market

- Advantages
 - Tailor-made lending
 - Lower brokerage costs
 - Spreading of risks
 - Informed, intelligent decision-making
- Participants
 - Investors:
 - individual
 - institutional
 - Takers of funds
 - Regulators and supervisors
 - Intermediaries
 - Underwriters
 - Brokers
 - Exchanges
 - Rating agencies

Topic II: Complementarity and financial cooperation in Latin America
Current situation. International experiences applicable to
the region. New financial products and services.
Cofinancing and coinvestment operations.

Topic III: Financial management for solvency and efficiency in
development banking. Credit policy. Portfolio rating.
Policies on capital adequacy and reserves. Investment
policy.

FELIPE S. TAMI, ARGENTINA

1. The basic terms of the problem

- Original design of development banks
- Economic policy, financial markets and development banks

2. Criteria of efficiency in development banks
 - Institutional efficiency
 - Operational efficiency
 - Possibilities and terms of reference for an overall assessment
3. Operating policies and solvency in development banks
 - Bank solvency and risk management
 - Solvency guidelines in development banks and capital adequacy
 - Credit and investment policy, risk administration management
 - Management of assets and liabilities, solvency and liquidity
4. Conditions of compatibility of institutional efficiency and bank efficiency
 - Consistency of public policies and working guidelines of the development bank
 - A new profile for development financing institutions
 - Relations with government
 - Internal management and administration
5. Final remarks

Topic IV: Bank supervision in the context of regional integration and globalization. Regulatory considerations. New techniques to be developed. Prospects for the future.

JUAN KLINGEMBERGER, PERU

1. Types of financial supervision
 - Institutional regulation
 - Prudential regulation
 - Financial regulation

2. Current trends in Latin America financial markets
 - Liberalization and globalization of financial markets
 - The role of bank supervision
3. Areas of bank regulation
 - Bank solvency
 - Capital adequacy
 - Basle Agreement
 - Deposit insurance
 - Diversification of portfolio risks
 - Transparency of information
 - Reconciling transparency and legislation
 - Auditing systems
 - Basic elements for preparing financial reports
 - Harmonization of regulations
 - Recommendations
4. Latin American regulation
 - Laws governing the operation of banking institutions
 - Comparative analysis
 - General recommendations
5. Conclusions

PROPOSED RESOLUTION

REGIONAL. NONREIMBURSABLE TECHNICAL COOPERATION FOR THE EXECUTION
OF A WORKSHOP ON FINANCIAL REFORMS AND REGIONAL COOPERATION

The Board of Executive Directors

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such agreements as may be necessary and to take such additional measures as may be pertinent for the execution of the plan of operations referred to in Document AT- with respect to a nonreimbursable technical cooperation with the Asociación Lationamericana de Instituciones Financieras de Desarrollo, for the execution of a Workshop on Financial Reforms and Regional Cooperation.

2. That up to the equivalent of US\$100,000 in nuevos soles, is authorized for the purpose of this resolution, chargeable to the net income of the Fund for Special Operations.

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