

BANK AND SECURITIES MARKETS SUPERVISION REGIONAL TRAINING PROGRAM

(TC-97-05-453-RG)

EXECUTIVE SUMMARY

- REQUESTOR:** Finance Ministers of countries in the Western Hemisphere.
- EXECUTING AGENCY:** Individual execution of training will be carried out by the responsible eligible institution (see Section 3.10). Overall supervision of the Bank and Securities Markets Supervision Regional Training Program ("Program") will be covered by the Inter-American Development Bank (IDB), through the Infrastructure and Financial Markets Division of the Sustainable Development Department (SDS/IFM), which will serve as the Technical Support Unit (see Section 3.14) to the Advisory Board (see Section 3.12).
- BENEFICIARIES:** Bank and securities markets supervisory agencies in MIF eligible borrowing member countries, and in the case of the Organization of Eastern Caribbean States (OECS) member countries, through the Caribbean Development Bank (CDB).
- OBJECTIVES:** The Program is designed to support regional or sub-regional training of bank and securities markets regulators to help ensure that technical staff are equipped with the proper training to manage the supervisory process in an increasingly complex and inter-related environment. By focusing on training financial market regulators in a regional or sub-regional setting, the Program will support the ongoing policy dialogue related to the harmonization of market rules, improve the compatibility of market information, and further the integration of the Latin American and Caribbean region's financial and capital markets.
- DESCRIPTION:** The Program will provide partial financial support for regional or sub-regional, demand-driven, training programs for technical staff of bank and securities market supervisory agencies of Latin America and the Caribbean. The training programs approved for funding will: benefit several MIF eligible countries; target appropriate participants (program

beneficiaries must be technical staff of government entities responsible for the supervision of banks and/or securities markets in the respective countries); be replicable; and, be sustainable. The programs are expected to complement, not duplicate existing programs, including those financed by the IDB Group or national and international agencies, and provide the type of training that benefits most from regional participation. The type of programs eligible for financing through this Program include: short-term training courses; development of (or adaptation of existing) training materials; translation of training material for technical staff; and, large-scale dissemination of training materials.

In order to ensure that the programs co-sponsored by the IDB Group meet the needs of all MIF eligible countries, while taking into consideration the limited resources available in certain countries to assess training needs, the Program will include a separate allocation dedicated to providing technical assistance to "C" and "D" IDB borrowing member countries, and OECS member countries, through the CDB. The allocation of funds will be used to conduct need assessments of eligible countries' bank and/or securities market supervisory bodies, and will result in developmental plans for human resource training. Requests for funds under this allocation will be managed by the Regional Operating Departments of the IDB to assure compatibility with other IDB Group programs in the region.

FINANCING:

| | |
|--------------------|-----------------------------------|
| Modality: | non-reimbursable grant-Facility I |
| Local Counterpart: | US\$1,200,000 |
| MIF: | US\$1,300,000 |
| TOTAL | US\$2,500,000 |

TERMS:

| | |
|----------------------|---|
| Execution Period: | 3 years from date of MIF Donor Committee approval |
| Disbursement Period: | 4 years from date of MIF Donor Committee approval |

**ENVIRONMENTAL
CLASSIFICATION:**

The Committee on Environmental and Social Impact, at its meeting of July 18, 1997, considered this operation (TRG-24), with no further action required.

BENEFITS:

This Program is expected to act as a catalyst for promoting cooperation among bank and securities regulators throughout the Americas, enabling them to exchange information about their system's rules, regulations and institutional experiences. Regional training will also improve efforts to promote international regulatory standards, practices, and surveillance measures for cross-border transactions

and indirectly support the long term goals of harmonization. Furthermore, with an emphasis upon regional activity, program execution is expected to support institution-strengthening, on a national or regional level, as well as resource mobilization through wide dissemination of training programs, and information contained within those programs.

The special allocation of funds dedicated to providing technical assistance to "C" and "D" IDB borrowing member countries, and OECS member countries, through the CDB, is expected to enable those countries receiving assistance to formulate and execute regulatory training strategies to improve the supervision of their banks and securities markets.

RISKS:

There is a potential risk that the training supported by the Program will not obtain the level of regional outreach desired or that the recipients of training will not apply their newly acquired knowledge within the relevant regulatory agency. In an effort to reduce these risks and to support a more sustainable program, significant counterpart contributions will be required to signal the importance of, and commitment to, training on the part of participating regulatory agencies. Additionally, fund recipients will be required to accept certain conditions, negotiated and agreed to by all concerned parties in the Letter of Agreement (see Annex III-1), in order to mitigate these risks. Furthermore, selection criteria (listed in Annex III-1) have been designed to minimize these risks. To assure compatibility with other IDB programs, the "no objection" of the corresponding Regional Operating Departments of proposed training programs will be required.

REGIONAL PRIORITY:

In accordance with the IDB's technical cooperation (TC) strategy (GN-1862-2) and priorities established under the Eighth Replenishment, this Program will directly support regional training programs and hemispheric integration efforts. In particular, the Program addresses both the MIF's general and TC facility programming interests by providing assistance with the development, strengthening, and integration of the Latin American and Caribbean region's financial markets, which will provide a more conducive environment for private sector investment in the region.

**SPECIAL
CONDITIONS:**

Condition prior to first disbursement: the Advisory Board will be established before any funds are disbursed from this grant.

SUPERVISION:

Basic supervision of the Program will reside within the Technical Support Unit based in the IDB, who will maintain records on project execution and evaluation, for both the individual training programs and the MIF Program, and manage the operations of the Advisory Board. Each recipient of MIF funding will be required to submit to the Technical Support Unit an evaluation report, as well as progress reports, as needed. Within six months of Program termination, a final evaluation report of the Program will be prepared under the supervision of the Technical Support Unit.

The Technical Support Unit will provide information, such as semi-annual progress reports, to the Regional Operations Departments, and members of interested parties, such as the Association of Latin American and Caribbean Bank Superintendents (ALACBS), the Council of Securities Regulators of the Americas (COSRA), and Finance Ministers of the Western Hemisphere, upon their request.

I. REGIONAL ELIGIBILITY

- 1.1 Resources of the project would only be used for countries declared eligible for a non-reimbursable (grant) modality of financing under the Multilateral Investment Fund (MIF).

II. BACKGROUND

- 2.1 The regulation and supervision of depository institutions and securities markets are key elements of most developed financial markets. Regulators provide the oversight needed to maintain market confidence and to ensure that banks and other financial intermediaries are operated in a safe and sound manner. Strong regulation and effective market oversight facilitate increased market transparency and protect the interests of smaller depositors and investors alike. Without a prudentially managed banking system, it is difficult for other financial markets to develop, and without properly functioning securities markets, the efficient transfer of capital to the investment community is reduced.
- 2.2 The supervision of financial markets in Latin America and the Caribbean does not provide the same level of oversight as compared with some more developed markets, resulting in a lower degree of confidence in the soundness of institutions and the integrity of the markets themselves, and consequently, in lower levels of private sector investment. The weaknesses are related to both the structure of financial supervisory systems and the lack of adequate training of supervisory personnel. Due to the importance of banking systems, and increasingly of capital markets in Latin America and the Caribbean, a program to strengthen bank supervision and securities markets regulation is essential to the overall development of the region's financial markets. The proposed regional program is designed to provide funding for the development of supervisory training systems, both by improving the ability of bank and securities markets supervisors to undertake institutional assessments, as well as to develop training programs to meet their institutions' specific weaknesses.
- 2.3 At the request of the Finance Ministers of the Western Hemisphere in May 1996, the Inter-American Development Bank (IDB) has been asked to sustain its efforts in the development of the region's financial systems and securities markets in the region. In particular, the Ministers requested the IDB to support "the development and training of highly skilled bank and securities supervisors and examiners as a means of promoting greater safety and soundness in Latin American and Caribbean financial systems." Given this mandate, the IDB has undertaken a portfolio of initiatives including: (i) research to identify barriers and solutions to the development of financial markets in the region, (ii) financial assistance to support an assessment of training needs, and (iii) direct support for training in bank supervision and securities market regulation.

- 2.4 This document describes the details of a part of this overarching plan, establishing a Bank and Securities Market Supervision Regional Training Program ("Program"). MIF support is being sought to provide financial support for training programs for bank examiners and securities market regulators which are expected to be demand-driven, regionally focused, and sustainable. IDB discussions with the Association of Latin American and Caribbean Bank Supervisors (ALACBS), representatives of securities and exchange commissions, and national and international financial institutions providing training assistance in the region, among others, have reinforced our awareness of the need for improved training for technical regulatory staff, and in the cases of "C" and "D" IDB borrowing member countries, and the Organization of Eastern Caribbean States (OECS) member countries, through the Caribbean Development Bank (CDB), of the importance of helping countries undertake a self-assessment of their institutions' human resource training needs and developing a training strategy.
- 2.5 The IDB has supported the improvement of bank supervision and capital markets development through a number of financial sector loans, investment sector loans, and global multisectoral lending facilities (as noted in Annex II-1, in project files). Many of the loans and technical cooperation programs dedicated to improving the institutions that supervise banks and securities markets have taken a comprehensive approach to revitalizing these organizations, usually through revising regulations, laws, institutional strengthening (including information systems) and human resource development. With respect to human resource development, significant attention has been placed upon internal reorganizations of the relevant supervisory agencies, by examining such issues as: staffing; salary structure; and short- and medium-term recruitment. In several of these loans, funding has been designated to support training primarily in individual countries in conjunction with efforts to revise the organizational structure of the relevant supervisory entities, introducing new (or updating existing) information systems, and on a more limited basis, providing some course instruction to improve supervisory staff competency in basic financial or economic subjects. Support for technical training in the area of inspection and examination, however, has often been a minor component of these loans or grants. This is beginning to change as it is increasingly being recognized that developing the technical capacity of supervisory personnel through improved training is vital for prudential supervision.
- 2.6 The MIF has a significant number of projects in its pipeline that are expected to include training for securities regulators, which constitutes an area of emphasis for the MIF, as these needs are not normally covered by the Financial Sector Reform Programs of the IDB. As such, training for securities regulators to be covered by this proposed Program will be of a regional, multi-country nature and which is not covered by the country-specific MIF programs. As the IDB has tended to cover some of the training needs (see Annex II-1) of banking supervisors through its reform programs, coverage

using MIF resources has been granted on an exceptional basis. Nevertheless, neither the MIF nor the IDB has covered regional training needs for financial market regulators, so the proposed Program will be limited to those needs.

- 2.7 While the IDB Group has increasingly dedicated more resources to improving the region's financial markets, until recently, only a small portion of funding from the IDB Group has been dedicated to personnel training in bank and securities supervisory agencies. Since 1991, loans and grant facilities that support financial sector reform and which have included funding to support technical training for bank and securities regulators, have totaled nearly \$2.5 billion from the IDB and \$10.7 million in MIF grant funding for a total of 13 countries. However, of that amount in both loans and grants, approximately \$1.8 million has been allocated for technical training on a national level, with only a small portion actually disbursed to date (as noted in Annex II-1, in project files). Attention to national-level regulatory training is increasing, as demonstrated by the MIF's financing of training for capital markets regulators, through country-by-country projects.
- 2.8 Until recent activity by the IDB to co-sponsor pilot regional training programs (\$200,000 dedicated to regional training), only one program by the MIF has been dedicated to regional or sub-regional training for technical staff of securities markets supervisory entities in the region. ^{1/} As part of the technical cooperation program dedicated to the development of financial and securities markets in Latin America and the Caribbean (ATN/SF 5274-RG), the IDB recently co-sponsored a two-week, sub-regional course on bank and credit analysis for technical staff in the bank superintendencies of the Andean region as a pilot training program, and will sponsor two two-week, sub-regional courses on securities regulation in the English-speaking Caribbean and Central America in November 1997 and February 1998. Given the few number of programs in support of regional training to date, and the growing number of national-level programs, resources from this project will only be used to finance training for regulators on regional-oriented issues and/or other training that are not being financed by country programs.
- 2.9 In addition to the support provided by the IDB Group, some assistance for international bank supervision training has been provided by the International Monetary Fund, the World Bank and the supervisory agencies of the United States, and to a more limited extent, by the Central Bank of Spain, among others. In the area of securities market regulation training, the International

^{1/} The MIF has dedicated US\$50,000 to train securities markets operators and securities regulators in the OECS countries through a grant to develop over-the-counter stock exchanges in the Caribbean. The program does not provide training for bank supervision.

Organization of Securities Commissions (IOSCO), the U.S. Securities and Exchange Commission, the Securities Exchange Commission of Quebec, and other national agencies have provided some training (though considerably less than what has been provided for bank supervisors) on an international or regional basis. The IDB has already participated in joint activities with some of these organizations, including the Corporación Andina de Fomento and the U.S. Federal Reserve Bank, in the bank supervision pilot training program described in Section 2.7. In the near future, the IDB anticipates it will work together with similar national and multilateral agencies in executing pilot training programs for securities regulators in the Caribbean and Central America. While there is an expressed interest by the above named institutions to continue supporting regulatory training in the region, all are limited in the resources they can provide, and could benefit from additional support.

- 2.10 Many financial market regulators have expressed their support for regional-level training, which provides additional benefits not incurred through national-level or international training. In preparing this Program, the Infrastructure and Financial Markets Division of the Sustainable Development Department (SDS/IFM) carried out missions and conducted a survey among the region's banking and securities regulators to assess their training needs and determine the demand for, and supply of, training in the countries throughout the region (as noted in Annex II-2, in project files). The study was carried out in order to complement (and prevent duplication of) the IDB Group's programming efforts through execution of this Program. It was found that a majority of the technical training provided to regulators in the region was derived from international sources, and in a few cases, supported by national- or regional-level training. Several regulators noted that while training methods and topics covered in international programs currently being offered were topical and useful in their own right, such programs did not usually address regional or sub-regional training interests, including strategies for promoting a coordinated and harmonized approach to supervision of both banks and securities markets. Furthermore, although there are issues that are of interest to most regulators throughout the hemisphere, it is also clear that countries with regulatory institutions at a certain stage of development or geographic location share interests with only some of the financial market regulators in the region. The structure of the proposed Bank and Securities Market Supervision Regional Training Program has been designed to address the similarities and differences in interests, and to build upon and complement already existing programs. The Program will utilize available resources which the bank and securities markets regulators of the region identify, while fulfilling training needs that are not being adequately addressed at the present time.
- 2.11 The demand for regional training for both bank and securities regulators is significant, as demonstrated by the requests the IDB has already received for providing financial assistance, including

proposals from the ALACBS and the Comissao de Valores Mobiliarios (CVM), Brazil. The proposal from the ALACBS requests financial assistance from the IDB Group to support a regional university training program for technical staff of bank supervisory agencies (addressing the needs of both junior and senior-level staff), and is expected to cost \$3.6 million to execute. The proposal from the CVM of Brazil requests IDB Group assistance to support the execution of a one-week course on derivatives markets for securities regulators of emerging markets. The level of demand for financial assistance to support regional training is significant and potentially could be extended to viable programs in the future. From these examples and the demand assessment described in Section 2.10, it should be clear that the Program proposed in this document can only serve to start a process that will require significantly more resources.

III. PROGRAM

A. Objective

- 3.1 The Program is designed to support regulatory training on a regional-level that will improve the development and proper oversight of banks and securities markets throughout Latin America and the Caribbean, and help ensure that supervisory staff are equipped with the proper training to manage the supervisory process in an increasingly complex and integrated environment. By focusing on technical training programs in a regional or sub-regional setting, the Program will support the ongoing policy dialogue related to promoting the harmonization of market rules and the integration of the region's financial and capital markets, as well as highlighting supervisory approaches that reinforce market discipline and sound financial market practices and procedures, while promoting greater cooperation between regulators in the region. Regional or sub-regional efforts will hopefully encourage countries to pool resources to provide training in areas of shared interest and need. National training efforts will only be supported insofar as they provide regional or sub-regional benefits and focus on the harmonization and cooperation efforts of supervision.

B. Description

- 3.2 The Program will provide partial funding for demand-driven, regional or sub-regional training programs for bank and securities market regulators of Latin America and the Caribbean. Funding will be limited to programs with objectives to promote the harmonization and integration of prudent, internationally recognized supervisory practices among countries in the region. As noted by the Western Hemisphere Finance Ministers in their May 1996 Communique, financial market regulatory training programs should "be based on an ongoing analysis of training needs in the region." The Program has been designed to be flexible, able to adapt to changing

circumstances in order to strengthen the supervision of banks and securities markets throughout the Latin American and Caribbean region. In order to ensure that the programs co-sponsored by the IDB Group meet the needs of all eligible MIF member countries, while taking into consideration the limited resources available in certain countries to assess training needs, the Program will include a separate funding allocation dedicated to providing technical assistance to "C" and "D" IDB borrowing member countries, and OECS member countries, through the CDB. The assistance will be directed at conducting needs assessments for personnel training of the eligible countries' bank and/or securities market supervisory bodies and producing developmental plans for training.

- 3.3 The training programs approved for funding are expected to complement, not duplicate, existing programs, including those financed by the IDB Group or national and international agencies, and provide the type of training that benefits most from regional participation. The Program is expected to take into consideration recommendations or comments put forth by the ALACBS, the Council of Securities Regulators of the Americas (COSRA), the Basle Committee, the IOSCO, as well as the opinions and perspectives expressed by individual bank superintendents and securities markets regulators, and members of the private sector. It is anticipated that MIF funding, combined with counterpart financing, will enable training programs to be executed over a three year period, and disbursed over four years. It is expected that programs approved for financing will incorporate mechanisms to develop sufficient institutional capacity to sustain training within the region beyond the period of funding.
- 3.4 Depending upon regional demand, programs supported by the Program are expected to be varied, with program methodology contingent upon the needs of the program's beneficiary countries. The type of programs eligible for financing through this Program include:
 - short-term training courses;
 - development (or adaptation of existing) training materials (e.g. self-instruction, interactive computer-based programs);
 - translation of training material for technical staff;
 - large-scale dissemination of training materials/methodology (e.g. electronic distribution system); and,
 - any other program that the Advisory Board (see Section 3.14) decides meets the objectives of the Program.
- 3.5 Training programs that will not be considered eligible include: internships; mentoring programs or consultation modules; and, conferences and/or seminars not directly targeted to training for technical staff of the relevant supervisory agencies (see "Eligible Programs," Annex III-1).
- 3.6 It is expected that the average cost per program will be \$75,000 (estimated average cost of a two-week program with instruction provided at cost by regulatory authorities), although cost per

program will vary widely. Funding per program will be limited, and will be based in part upon the equitable distribution of available funds. No more than \$200,000 from the Program will be allocated per proposal request. No more than \$400,000 will go to the same agency directing and/or executing the training. Furthermore, no less than 30 percent in any given year, and no less than 50 percent of the total amount of funding available for training in the Program will be dedicated to "C" and "D" IDB borrowing member countries, and OECS member countries, through the CDB.

- 3.7 Given the large demand for regional training and variety of methods for executing training, minimum program selection criteria have been developed for extending MIF funding to proposed regional training programs. The selection criteria are designed to be clear, objective, and easy to monitor, and will be reviewed and approved by the Advisory Board (see Section 3.12) for its use at the first meeting of the Board. Eligible proposals received by the Technical Support Unit (see Section 3.14) will be forwarded to the Advisory Board for approval recommendations. Proposals will be selected on the basis of the following criteria:

- benefits of training;
- compatibility with harmonization/integration in region (utilizing international standards for prudential supervision);
- capabilities of counterpart entity(ies) (i.e. technical, financial, administrative contributions and capabilities);
- targeted to appropriate participants (program beneficiaries must be technical staff of government entities responsible for the supervision of banks and/or securities markets in the respective countries);
- cost;
- ability to demonstrate that part or all of the training program is replicable (in order to enhance the scope and scale of the program's benefits);
- sustainability;
- ability to support suppliers of goods and services for training programs which are from eligible MIF member countries; and
- any other criteria approved by the Advisory Board prior to reviewal of any proposals.

- 3.8 With reference to the program selection criteria stated above, proposals to obtain financial support will be expected to include the following information:

- information to assess the eligibility, according to the selection criteria listed above;
- objectives of the program;
- description of the program's content, training methodology, organization/administration;
- lead/responsible entity for program;
- target group benefiting from training (i.e. participants' job title, nationality, etc.), including selection criteria for training beneficiaries;

- detailed budget, including all requested funding from the Program and other intended funding sources, especially funding provided by beneficiary countries;
 - timeline for program execution;
 - statements indicating the type, supplier, and method of financing for previous regional training programs and/or national diagnostic studies of training needs conducted in recipient countries;
 - demonstration that the execution of the program will begin (not necessarily be completed) within six months of Advisory Board approval; and
 - cost of the preparation, management, and execution of the program.
- 3.9 The basic conditions required for providing training programs for bank and securities markets examiners, as well as the guidelines that provide information on the Program's approval process and the responsibilities of Program recipients, are outlined in the "Operational Guidelines," listed in Annex III-1.
- 3.10 Requests for financial support from this Program will be accepted from eligible institutions, which are government or quasi-government agencies or associations with supervisory responsibility for regulating banks and securities markets in MIF eligible countries (i.e. local counterpart(s)).
- 3.11 Benchmarks for measuring the Program's success have been outlined in the logical framework (see Annex III-2, in project files).

C. Administration and Execution

- 3.12 An Advisory Board will be formed, consisting of representatives (five persons total) from leading regional and/or international organizations dedicated to setting high standards for bank and securities markets supervision. Efforts will be made to ensure that regional representation is well dispersed through membership on the Board. Recommended organizations include: the ALACBS, the Basle Committee, the COSRA, the IOSCO, and academia. The Board, using pre-determined, objective, and transparent criteria (see Section 3.7) will select programs to be financed through the Program.
- 3.13 This Board will be formed immediately following approval of the Program by the Donors' Committee by inviting each of the organizations mentioned in Section 3.12 to name a Board member; the fifth member will be selected by the IDB. An initial meeting will be established, enabling the Board to define procedural issues and make amendments to the criteria and conditions set forth in the "Operational Guidelines" (see Annex III-1). The Technical Support Unit will act as Secretary of Advisory Board meetings. The Board will meet in-person on an annual basis (i.e. three times over the life of the Program) for policy matters: to revise procedures, negotiate terms, and discuss general Program policies. The

Technical Support Unit will issue calls for proposals and the Advisory Board will approve programs on a quarterly basis, and approve (or not approve) programs as-needed. The members of the Advisory Board will communicate their decisions and recommended course of action to the Support Unit regarding proposals through written correspondence on a timely basis. The Technical Support Unit will communicate the final decision whether or not to provide MIF funds for proposed training programs to the relevant local counterpart entities. Membership on the Advisory Board will be assessed on an annual basis by the Technical Support Unit. It is expected that the Program will have to evaluate approximately 15-20 requests for assistance, and approve 10-15 of those proposals submitted to the Board.

- 3.14 A Technical Support Unit, hosted by SDS/IFM, will be established to manage and evaluate the Program's activities and oversee the operations of the Advisory Board. The Technical Support Unit will be responsible for:

- communicating with potential counterparts of the Program, including disseminating requests for proposals and operational guidelines for the Program;
- forming the Advisory Board;
- screening proposals for eligibility of IDB funding;
- negotiating modifications to the proposals, if advisable;
- sending eligible proposals to the Board and acting as its secretary;
- informing beneficiaries of the approval/rejection of their requests;
- negotiating and signing letters of agreement (see Section 3.16);
- monitoring the execution of the agreements; and.
- preparing and disseminating reports on the Program.

- 3.15 Furthermore, the Technical Support Unit will facilitate communication between stakeholders inside and outside the IDB, including providing a point of contact to coordinate with the MIF, the Regional Operations Departments, Regional Technical Cooperation Division of the Integration and Regional Programs Department (INT/RTC), Operational Division of the Legal Department, and other entities in the IDB on matters relating to the Program. To prevent any potential conflicts between national- and regional-level training, the corresponding Regional Operating Department will be asked for their "no objection." This is one of the major reasons for locating the Support Unit within the IDB.

- 3.16 Upon approval of a proposal by the Advisory Board, the Technical Support Unit will negotiate the terms of the letter of agreement with the relevant eligible institution(s), which is then signed by the responsible executing entities receiving funds, and the IDB, before funds are disbursed. The letter will be comprised of general conditions, as defined by IDB procedure, and specific conditions, which will be negotiated and agreed to by all concerned

parties before funds are disbursed. The specific conditions will define, among other items:

- designated use of funds;
 - description of the training program;
 - period of disbursement and commitment of resources for all recipients and the schedule of disbursement, including the portion of funds advanced to the local counterpart and regular disbursement intervals according to an outlined schedule of events (e.g., selection of consultants, delivery of first proposal by service or goods providers, etc.);
 - presentation and content of reports (e.g., status/progress, financial, evaluation, and other reports, as agreed to by the Advisory Board) to the Technical Support Unit by an agreed upon time;
 - statement describing regional participation, including both countries and private or public entities that have confirmed their participation in the program;
 - statement describing program sustainability; and
 - participating country contributions defined in program budget.
- 3.17 Once funded, with resources disbursed according to an agreed upon schedule, entities responsible for executing the approved programs will do so according to the agreed upon terms. The Technical Support Unit will monitor program execution and ensure the terms of agreement are adhered to fully.
- 3.18 The Regional Operating Departments will be responsible for monitoring programs using the special allocation fund for technical assistance to conduct needs assessments of relevant supervisory agencies, which will lead to development plans for human resource training. Requests for funds under this allocation will be managed by the Regional Operating Departments of the IDB to assure compatibility with other IDB Group programs in the region.

D. Costs and Financing

- 3.19 The preliminary assessment of projected costs total \$2,500,000. Of this amount, the MIF will provide \$1,300,000, and local counterparts will provide \$1,200,000. It is expected that demand for MIF funding will require financial support for approximately sixteen training programs for banking supervisors and nine training programs for securities markets regulators. The majority of the program budget is dedicated to training programs (\$1,900,000 disbursed over a maximum of four years will be supported, \$1,000,000 of which is from the MIF). A separate allocation for technical assistance, to enable a sample of "C" and "D" IDB borrowing member countries, and OECS member countries through the CDB, will be provided to undertake assessments of their training needs and prepare training strategies. This separate allocation will require an additional \$150,000 (of which the MIF will contribute \$100,000 and local counterparts \$50,000). An additional MIF contribution of \$150,000 is budgeted to cover program

management costs, such as those expenses incurred through the operation of the Technical Support Unit and the Advisory Board, execution of evaluations of approved training programs and evaluations of the countries' self-assessments, coordination with multilateral and/or bilateral agencies, and other miscellaneous expenses associated with program management. A reserve of \$50,000 from the MIF will cover contingency expenses. Local counterpart contributions includes total out of pocket expenses covered by co-sponsors of the training programs, including contributions by sponsoring countries or international/regional agencies providing technical assistance (e.g., IOSCO, ALACBS, the U.S. Securities and Exchange Commission, Comisión Nacional de Valores de España, etc.). Furthermore, it is estimated that local counterparts responsible for executing the training programs will incur at least \$250,000 in expenses in managing the preparation, execution and evaluation processes for approved programs.

- 3.20 The distribution of funding contributions are listed in the following table.

| Budget - Training Bank and Securities Market Supervisors (US\$ Equivalent) | | | |
|---|---|---|-------------------------|
| | MIF Funding¹ (US\$) | Local Counterpart² (US\$) | Total (US\$) |
| Special fund allocation to provide technical assistance for developing plans for training programs (limited to "C" and "D" IDB borrowing member countries, and OECS member countries through the CDB) | 100,000 | 50,000 | 150,000 |
| Training programs for Bank and Securities Market Supervisors | 1,000,000 | 900,000 | 1,900,000 |
| Program Management ³ | 150,000 | 250,000 ⁴ | 400,000 |
| Advisory Board | 70,000 | | |
| 2.1 Compensation | 30,000 | | |
| 2.5 Travel | 40,000 | | |
| Technical Support Unit | 80,000 | | |
| 2.2 Fees | 68,000 | | |
| 6.8 Communications | 12,000 | | |
| Contingencies | 50,000 | --- | 50,000 |
| TOTAL | 1,300,000 | 1,200,000 | 2,500,000 |

¹ General budget categories for allocation of MIF contributions include: 1 (professional service, firms); 2 (individual consultants); 8 (program coordination, supervision and/or evaluation); and 98 (contingencies). Specific accounting categories (2 digits and above) will be defined on a project-by-project basis.

² General budget categories for allocation of local counterpart contributions include: 1 (professional service, firms); 2 (individual consultants); 3 (scholarship contributions); 5 (staff (non-IDB) travel); and 6 (general support). Specific accounting categories (2 digits and above) will be defined on a project-by-project basis.

³ This figure accounts for the budgets of the Advisory Board and the Technical Support Unit. The budget for the Advisory Board will account for \$70,000, consisting of \$40,000 for meeting expenses (total 3 meetings) and \$30,000 for potential honoraria, although pro bono services will be sought. The budget for the Technical Support Unit will consist of \$68,000 for management activities and \$12,000 for communication expenses to manage the Program.

⁴ Estimated cost to prepare, manage, and evaluate the execution of programs by sponsoring, eligible institutions.

3.21 The Program will not finance more than 60 percent of out-of-pocket expenses of the proposed program(s), except for proposals which will benefit "C" and "D" IDB borrowing member countries, and OECS member countries through the CDB, in which case the Program may contribute up to 80 percent of out-of-pocket expenses of the proposed program. Limits on the amount of MIF funds available to finance each approved program have been made to ensure that the supervisory agencies fully support the proposed program. Written documentation describing regional participation, including both countries and private or public entities that have confirmed their participation in the program, and country contributions defined in

the program budget, will be included in the letter of agreement between the IDB and the local counterpart(s). (See Annex III-1). Such information will be required before funds are disbursed in order to indicate to the IDB that the proposed training is considered to be of value to the respective supervisory agencies, and does not conflict with other IDB Group programming efforts.

E. Evaluation and Supervision

- 3.22 As a condition of MIF funding, local counterpart sponsors of training will be responsible for providing the Technical Support Unit with an independent evaluation of the training program within three months from program completion. The contents of the evaluation will vary depending upon the method of training, and thus will be adapted in the final letter of agreement, but is likely to include information assessing the quality of the content and method of training, level of regional outreach (beneficiaries of training), and sustainability. Within six months of Program termination, a final report of the Program will be prepared under the supervision of the Technical Support Unit.
- 3.23 Basic supervision of the Program will reside within the Technical Support Unit based in the IDB, who will maintain records of program execution and evaluation, and manage the operations of the Advisory Board. The Technical Support Unit will provide information, such as semi-annual progress reports, to the Regional Operations Departments, and to members of interested parties, such as the ALACBS, the COSRA, and Finance Ministers of the Western Hemisphere, upon their request.

F. Benefits and Risks

- 3.24 Regional training for bank and securities regulators directly supports efforts to integrate the region's financial markets, harmonize supervisory standards and practices, and strengthen the financial sectors of participating countries. This Program is expected to act as a catalyst for promoting cooperation among bank and securities regulators throughout the Americas, enabling them to exchange information about their systems' rules, regulations and institutional experiences, in an effort to improve the efficiency and soundness of their respective domestic markets. Regional training will also improve regulatory efforts to promote agreed-upon standards and surveillance measures for cross-border transactions and indirectly support the long-term goals of harmonization. Furthermore, with an emphasis on regional activity, program execution is expected to support institution-strengthening, on a national or regional level, as well as resource mobilization through wide dissemination of training programs.
- 3.25 The special allocation of funds dedicated to providing technical assistance to "C" and "D" IDB borrowing member countries, and OECS member countries through the CDB, is expected to enable those countries receiving assistance to formulate and execute regulatory

training strategies to improve the supervision of their banks and securities markets.

- 3.26 There is a potential risk that the training supported by the Program will not obtain the level of regional outreach desired or that the recipients of training will not apply their newly acquired knowledge within the relevant regulatory agency. In an effort to reduce these risks and to support a more sustainable program, significant counterpart contributions will be required to signal the importance of, and commitment to, training on the part of participating regulatory agencies. Additionally, fund recipients will be required to accept certain conditions, negotiated and agreed to by all concerned parties in the Letter of Agreement (see Annex III-1), in order to mitigate these risks. Furthermore, selection criteria (listed in Annex III-1) have been designed to minimize these risks. To assure compatibility with other IDB programs, the "no objection" of the corresponding Regional Operating Departments of proposed training programs will be required.

IV. CONSISTENCY WITH BANK GROUP'S REGIONAL STRATEGY

- 4.1 The Program is consistent with the IDB's regional priorities for financial sector development, which calls for strengthening and integrating the Latin American and Caribbean region's financial markets, and enhancing the level of coordination among national and/or regional institutions. To ensure this Program's execution is in line with the IDB Group's regional strategies (e.g. Capital Markets Strategy, GN-1870-2), the Regional Operational Departments and the Technical Support Unit will exchange and share information they gather on activities to support training for bank supervisors or securities markets regulators, whether training is derived from IDB support, or is being supported by other entities in support of IDB country strategies. The Technical Support Unit will share relevant information with the Advisory Board.

V. COMPLIANCE WITH PROJECT ELIGIBILITY CRITERIA

- 5.1 General Criteria for Project Eligibility. MIF financing dedicated to strengthening the supervision of banks and securities markets throughout Latin American and the Caribbean in order to protect the integrity and credibility of the region's financial markets is fully consistent with the general purposes of the MIF, which are to increase investment and expand the private sector as a means of accelerating economic and social growth and development in the region.
- 5.2 Facility Criteria for Project Eligibility. The proposal for establishing this MIF Program is consistent with the criteria for grant financing under the Technical Cooperation Facility, Article 3, Section 2 of the MIF Agreement. Among other items, these criteria include support for financing country diagnostic studies

to identify investment constraints (such as regulatory impediments) and providing assistance with the development and strengthening of the region's financial systems.

- 5.3 The contraction of consulting services and acquisition of goods will be conditioned upon the policies and procedures of the IDB and the eligibility criteria of the MIF.

**BANK AND SECURITIES SUPERVISION REGIONAL TRAINING PROGRAM
OPERATIONAL GUIDELINES**

1. The following operational guidelines are applicable to the training components of the operation of the Multilateral Investment Fund (MIF) Bank and Securities Markets Supervision Regional Training Program ("Program").
2. Eligible Countries: Resources of the project will only be used for countries declared eligible for all modalities of financing under the MIF.
3. Eligible Institutions: Requests for financial support will be accepted from government or quasi-government agencies or associations with supervisory responsibility for regulating banks and/or securities markets in eligible MIF member countries.
4. Financing: The Program will be financed through a non-reimbursable grant of \$1,300,000 by the MIF, with relevant local counterparts contributing \$1,200,000 to the Program for program execution. These guidelines refer only to the training component of the Program (with a MIF contribution of \$1,000,000, and local counterpart support of \$900,000).
5. Program Expiration: Expiration date for program execution will be established three years from the date of MIF Donor Committee approval of the Program. No program will be funded after that date.
6. Technical Support Unit: The Technical Support Unit for the Program, hosted by the Infrastructure and Financial Markets Division of the Sustainable Development Department (SDS/IFM), will have the following responsibilities:
 - disseminating financing opportunities and operational guidelines for the Program;
 - communicating with potential counterparts of the Program;
 - screening proposals for eligibility funding;
 - negotiating modifications to the proposals, if advisable;
 - sending eligible proposals to the Advisory Board and acting as its secretary;
 - informing beneficiaries of the approval/rejection of their requests;
 - negotiating and signing letters of agreement with beneficiaries;
 - monitoring the execution of the agreements;
 - preparing and disseminating reports on the program.
7. Regional Operating Departments: The Regional Operating Departments of the IDB will have the following responsibilities:

- review the proposed training programs to assure compatibility with country programs and ongoing policy dialogue for proposals involving their corresponding regions/countries; and,
 - communicate to the Technical Support Unit when they agree to the program ("no objection.")
8. Advisory Board: The Advisory Board will have the following responsibilities:
- receive proposals on a quarterly basis and approve/reject proposals as-needed;
 - inform the Technical Support Unit of the conditions to be set in the funding agreement;
 - advise the Technical Support Unit on issues relating to program eligibility and execution; and
 - meet in-person annually to revise procedures, negotiate terms, and discuss general Program policies as outlined in these Operational Guidelines.
9. Eligible Regional Training Programs: The following is a list of the type of programs eligible for financing through this Program:
- short-term training courses;
 - development (or adaptation of existing) training materials/methodology (e.g. self-instruction, interactive computer-based programs);
 - translation of training material for technical staff;
 - large-scale dissemination of training materials/methodology (e.g. electronic distribution system); and,
 - any other program that the Advisory Board decides meets the objectives of the Program.

Programs that are not considered eligible include: i) internships; ii) mentoring programs or consultation modules; and iii) conferences and/or seminars not directly targeted to training for technical staff of the relevant supervisory agencies.

10. Funding Priority: Project approval and execution will be based in part upon the equitable distribution of available funds. The following limits apply:
- no more than \$200,000 from the Program will be allocated per proposal request;
 - no more than \$400,000 will go to the same agency directing and/or executing the training;
 - no less than 30 percent in any given year, and no less than 50 percent of the total amount of funding available in the Fund will be dedicated to assisting "C" and "D" IDB borrowing member countries, and the Organization of Eastern Caribbean States (OECS) member countries, through the Caribbean Development Bank (CDB);
 - the Program will not finance more than 60 percent of out-of-pocket expenses of the proposed program(s), except for

proposals which will benefit "C" and "D" IDB borrowing member countries, and OECS member countries through the CDB, exclusively, in which case the Program may contribute up to 80 percent of out-of-pocket expenses of the proposed program.

11. Program Selection Criteria: Eligible proposals received by the Technical Support Unit will be forwarded to the Advisory Board for approval recommendations. Proposals will be selected on the basis of the following criteria:

- benefits of training;
- compatibility with harmonization/integration in region (utilizing international standards for prudential supervision);
- capabilities of counterpart entity(ies) (i.e. technical, financial, administrative contributions and capabilities);
- targeted to appropriate participants (program beneficiaries must be technical staff of government entities responsible for the supervision of banks and/or securities markets in the respective countries);
- cost;
- ability to demonstrate that part or all of the training program is replicable (in order to enhance the scope and scale of the program's benefits);
- sustainability;
- ability to support suppliers of goods and services for training programs which are from eligible MIF member countries;
- non-objection of corresponding IDB Regional Operating Department; and,
- any other criteria approved by the Advisory Board prior to reviewal of any proposals.

12. Content of Request: With reference to the program selection criteria stated above, proposals to obtain financial support from this Program should include the following information:

- information to assess the eligibility, according to the selection criteria listed above;
- objectives of the program;
- description of the program's content, training methodology, organization/administration;
- lead/responsible entity for program;
- target group benefiting from training (i.e. participants' job title, nationality, etc.), including selection criteria for training beneficiaries;
- detailed budget, including all requested funding from the Program and other intended funding sources, especially funding provided by beneficiary countries;
- timeline for program execution;
- statements indicating the type, supplier, and method of financing for previous regional training programs and/or national diagnostic studies of training needs conducted in recipient countries;

- demonstration that the execution of the program will begin (not necessarily be completed) within six months of Advisory Board approval;
 - cost of the preparation, management, and execution of the program.
13. Letter of Agreement: Upon approval of proposal by the Advisory Board, Program recipient(s) will be required to sign a letter of agreement to disburse funds. The letter will be comprised of general conditions, as defined by IDB procedure, and special conditions, which will be negotiated and agreed to by all concerned parties before funds are disbursed. The special conditions will define, among other items:
- designated use of funds;
 - description of the training program;
 - period of disbursement and commitment of resources for all recipients and the schedule of disbursement, including the portion of funds advanced to the local counterpart and regular disbursement intervals according to an outlined schedule of events (e.g., selection of consultants, delivery of first proposal by service or goods providers, etc.);
 - presentation and content of reports (e.g., status/progress, financial, evaluation, and other reports, as agreed to by the Advisory Board) to the Technical Support Unit by an agreed upon time;
 - statement describing regional participation, including both countries and private or public entities that have confirmed their participation in the program;
 - statement describing program sustainability; and
 - participating country contributions defined in program budget.

BANK AND SECURITIES MARKETS REGIONAL TRAINING PROGRAM

| DESCRIPTION | INDICATORS | MEANS OF VERIFICATION |
|---|---|--|
| <p>Objective:</p> <p>The Bank and Securities Markets Regional Training Program ("Program") is designed to support policies related to the harmonization of market rules, improving the compatibility of market information, and supporting the integration of Latin American and Caribbean financial and capital markets.</p> | | |
| <p>Purpose:</p> <p>The Program will finance sub-regional or regional technical training programs dedicated to ensuring that supervisory staff of banks and securities markets in Latin America and the Caribbean are equipped with the proper training to manage the supervisory process in an increasingly complex and inter-related environment.</p> | <p>Improvement in the technical skills of bank examiners and securities markets regulators.</p> <p>Enhanced cooperation and coordination among supervisory agencies in several countries.</p> | <p>Evaluation reports, developed by country beneficiary participation.</p> <p>Program budget, delineating country beneficiary contribution.</p> |
| <p>Inputs:</p> <p>Regional or sub-regional training programs for bank and/or securities markets regulators.</p> <p>Technical assistance to conduct needs assessments of regulatory agencies eligible for special allocation of funds, resulting in a supervisory training plan.</p> | <ul style="list-style-type: none"> - An estimated 15 to 20 training programs will be executed within 4 years. - Approximately 3 to 5 studies of training needs and development of training strategy completed within 4 years. | <ul style="list-style-type: none"> - Signed letters of agreement. - Disbursement of funds. - Progress reports. - Evaluation reports. |

| DESCRIPTION | INDICATORS | MEANS OF VERIFICATION |
|---|---|---|
| <p>Activities:</p> <p>Establishment of the Program</p> <p>Execution of training programs/technical assistance.</p> | <p>Creation and operation of Advisory Board and Technical Support Unit (\$150,000).</p> <p>Information on purpose and operational guidelines of the Program distributed to stakeholders.</p> <p>Disbursement of training funds (MIF contribution: \$1,000,000).</p> <p>Disbursement of technical assistance funds (MIF contribution \$100,000).</p> | <ul style="list-style-type: none"> - Correspondence with Advisory Board members. - Minutes of meetings of Advisory Board. - Communication sent between interested parties inside and outside the IDB (including Regional Operating Departments, banks and securities regulators; bilateral and regional/international training providers; regional associations). - Signed letters of agreement. - Disbursement of funds. - Technical Support Unit reports on Program. - Local counterpart evaluation reports of training programs, technical assistance, and reports required under terms of agreement. |

PROPOSED RESOLUTION

BANK AND SECURITIES MARKETS SUPERVISION REGIONAL TRAINING PROGRAM

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank or such representative as he shall designate is authorized, in the name and on behalf of the Multilateral Investment Fund, 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 MIF/AT- with respect to a technical cooperation program for establishing training programs for technical staff of Bank and Securities Market Supervisory Agencies of Latin-America and the Caribbean.
2. That up to the amount of US\$1,300,000 is authorized for the purpose of this resolution, chargeable to resources of the Technical Cooperation Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a non-reimbursable basis.