

SUPPORT PROGRAM FOR INSTITUTO DE FORMACIÓN BANCARIA

(TC-96-10-08-2)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Asociación de Bancos del Perú [Peruvian Banking Association] (ASBANC)

BENEFICIARIES: The direct beneficiary would be the Instituto de Formación Bancaria [Bank Training Institute] (IFB). The indirect beneficiaries would be potential requestors of banking and finance training services, i.e. some 22,000 people employed in the financial sector or as finance officers in the nonbank sector, and graduate and post-graduate students. In the medium term, financial deepening would benefit segments traditionally not served by banks, such as small businesses.

FINANCING:	Modality:	Grant
	Beneficiary:	US\$0.7 million
	MIF:	US\$1.3 million
	Total:	US\$2.0 million

IMPLEMENTATION TIMETABLE:	Execution period:	42 months after signing of the agreement
	Disbursement period:	48 months

OBJECTIVES: The general objective of this operation is to enhance competition and competitiveness in the financial market, and to contribute to financial deepening over the long term. Specifically, the operation seeks to ensure that the IFB can sustainably serve demand for bank and financial training from ASBANC member institutions and the general public.

DESCRIPTION: The operation would support the organization and development of the IFB's institutional and operating structures, and would also provide assistance to the IFB in conceptualizing and delivering a range of banking/financial training services, especially in the area of small business. Four components would be carried out: (i) advisory assistance for organization and development of IFB institutional structures; (ii) design and implementation of training products; (iii) introduction of promotion and communication mechanisms; and (iv) development of a documentation and research center. The expected outputs are as follows: (i) the IFB would set up banking/financial training courses and programs;

(ii) the workings of the banking sector in particular, and the financial sector generally, would improve and the range of products and services offered to all economic segments would be broadened; (iii) linkages would be created between the Peruvian financial sector and training institutions abroad; (iv) the IFB's economic and revenue base would be broadened and consolidated to make it self-sustaining in the medium term; (v) the IFB would be positioned as a lead provider of banking/financial training products in Peru's educational market; and (vi) the lessons learned and project outputs would be disseminated broadly.

VIABILITY:

Economic and financial viability is assured chiefly by the existing gaps in the bank training market, which features limited supply of poor quality in the face of rising demand. This opens up a window of opportunity for the IFB to apply a clearly business-oriented strategy of cost recovery from the outset. The pricing and cost monitoring systems to be set up in the project would give the IFB the tools it needs to pursue a cost recovery strategy in its ongoing business.

The project's institutional viability would be assured by solid participation on the part of ASBANC and the commercial bank sector, which would invest not only considerable funds but also its institutional prestige in the operation, making it a stakeholder with a strong incentive to ensure its success.

**ENVIRONMENTAL AND
SOCIAL IMPACT:**

The Committee on Environment and Social Impact, at its meeting TRG 40/97 of November 17, 1997, approved this operation with no recommendations.

RISKS:

Risks are associated, on the one hand, with introducing new products to the training market, and on the other, with institutional weaknesses within the IFB. Both types of risk will be addressed through the institutional strengthening activities proposed.

RATIONALE:

Financing an expansion in the supply of banking and financial training offered by the IFB, in the manner contemplated, is justified by the positive impact it would have on financial system technology and therefore on the country's economic development, especially in lower-income segments such as small businesses, which would benefit from market deepening. It is also justified by the positive

externalities associated with raising the education level in any society.

CONDITIONS

PRECEDENT:

Prior to the first disbursement, the executing agency is to demonstrate that the consulting services under component 1 have been engaged (see paragraph 3.5).

SPECIAL

CONTRACTUAL

CONDITIONS:

The agreement would require, to the Bank's satisfaction and in accordance with MIF procedures, the MIF funds to be disbursed on a pari passu basis with local counterpart funding (see paragraph 3.28).

I. COUNTRY ELIGIBILITY

- 1.1 Peru has been declared eligible for all types of financing from the Multilateral Investment Fund.

II. BACKGROUND

A. Economic adjustment and demand for employment training

- 2.1 When a new administration took office in mid-1990, Peru embarked upon a process of far-reaching adjustment and economic reform which has effected a significant shift in the structures and rules governing all markets for goods and services, including capital and labor markets. As a result, most markets are now significantly more competitive, driven chiefly by the entry of goods, services and capital from abroad. Peruvian businesses have generally been ill-prepared for this situation, largely because of an educational and technological lag behind international standards in the production and distribution of goods and services as well as in business administration.
- 2.2 Although the technology gap affects business owners and the labor force alike, it is the latter who bear the brunt. The educational system has proven generally to be poorly positioned and unresponsive to needs for retraining and for training of new entrants to the job market. The private sector's response has also been feeble and piecemeal, with most companies opting for various forms of in-house training or making use of the supply of specific training offered by institutions in Peru or abroad. Rarely, however, do these training initiatives meet industry-wide standards or norms. Not only does this tend to lower their level, but it also makes the job market less flexible and limits the extent to which training can contribute to business innovation.

B. The financial market: market adjustments and the need for innovation

- 2.3 Like other markets, the financial market has undergone drastic change since 1990. One of the most visible consequences is the massive entry of new market players, especially foreign financial firms, resulting in more competition in traditional market segments. Another is a gradual process of financial deepening as, for instance, segments whose needs hitherto went unaddressed are brought into the market.
- 2.4 The sector reforms have posed major challenges to Peru's financial system in terms of business and technological adjustment which it was ill-prepared to meet because of the technology gap and significant educational shortcomings among its workforce. These

shortcomings affect its competitive position in traditional segments of financial demand and narrow its potential for contributing effectively to a process of financial deepening that would benefit the burgeoning sector of microenterprises and small and medium-sized businesses.

- 2.5 If technology in the financial sector is to be adapted and upgraded, being able to rely on properly trained human resources is crucial. Indeed, the many interviews conducted with bank representatives during preparation of the proposed program, and the work done through focus groups with experts in bank training, have pointed up the financial sector's need for personnel training. Moreover, many of those interviewed have voiced concern over the quality of training offered by the educational system generally, as well as dissatisfaction with the technical caliber of services offered by private job training institutions that specialize in economics, finance and administration.
 - 2.6 In responding to the inadequate supply of education and training, the financial sector has sought piecemeal solutions. Depending on the economic weight of the financial institutions concerned, different strategies have been implemented. Larger banks have set up their own training centers; some medium-sized institutions have made use of financial training offered in Peru or in international markets, often at a relatively high cost; and small and/or specialized institutions such as microlenders have used international technical cooperation from various donors to finance specific institutional strengthening and training measures.
 - 2.7 The solutions adopted by Peruvian financial institutions to date are not considered very efficient, since they involve comparatively high unit costs, have only a limited ability to cover a substantial part of the workforce in the financial system, or are limited to specific aspects of technology and have little impact on the competitiveness of the sector as a whole. Nor do the existing systems allow for systematic training of new entrants to the banking/financial job market.
- C. Expanding the supply of bank training: the key to a more competitive financial system
- 2.8 Better trained staff with higher professional standards are increasingly vital to the financial sector as competitive pressures drive institutions to serve new clienteles by developing and introducing new products, in the areas of microenterprise and small and medium-sized business lending, financing for housing, financial leasing, and so on. Among these new potential product lines, the microenterprise and small and medium-sized business sector is paramount since this sector is encountering increasingly favorable conditions for its development.

- 2.9 The expansion and sustained growth of the small business sector and its job-creation potential will hinge largely on access to appropriate financial services. Although financial institutions are showing more interest in serving this segment of business, their effective entry into the market has been hampered by a lack of appropriate technologies, instruments and products to manage microlending risks properly. These shortcomings have led to large portfolio losses for some of the financial institutions operating in the microlending market, giving rise to market distortions and acting as an disincentive for entry by other institutions.
- 2.10 It is precisely the inadequate supply of bank training and its repercussions on the financial sector's efficient workings and potential for accelerated deepening that would make training expansion measures desirable. However, the private sector cannot be expected to shoulder all the costs associated with expanding education supply, especially considering that the discounted value of individual benefits deriving from improved supply are estimated at less than the cost of producing it. In particular, the high cost of designing and introducing a supply of bank training is a major strike against it for the private sector, since these are essentially considered sunk costs. Also, the assumption of positive externalities associated with expanding the country's supply of education - and in this case specifically, the benefits derived from improved operation and a broader range of offerings in the financial sector - would justify a selective allocation of public resources to expand the supply of banking/financial training. More specifically, subsidizing the initial cost of creating the supply, but not the subsequent cost of production or expansion of these services, would be justifiable. This operation would finance the initial cost of expanding the training supply.
- 2.11 On the other hand, the lacunae observable in the bank training market have opened up a window of opportunity for developing the supply as a business proposition. Once an adequate quality standard has been achieved, a large part of demand that today is directed to institutions abroad or to isolated training activities within Peru could be captured, in addition to demand now unmet. In both cases, charging prices that cover the provider's production and capitalization costs would not stand in the way of market entry, since potential customers have the ability to pay and have shown a willingness to accept such prices. Nor are any impediments anticipated in making the supply financially self-sustaining.

D. Peruvian Banking Association

- 2.12 ASBANC was founded in 1967 as a nonprofit association to represent private-sector banks joining it voluntarily. Today, 24 of Peru's 25 commercial banks 1/ (with both Peruvian and foreign capital)

1/ Data as of June 1997.

are ASBANC members. The Association's highest authority is the Representatives Assembly, which is chaired by the Association's President, while the administration is headed up by the Manager, with a staff of 40. The Association also has several working committees made up of representatives of its members.

- 2.13 Most of ASBANC's revenues are provided by annual dues from its members, which are currently assessed at US\$50,000 per member bank, regardless of size. ASBANC also takes in funds from the sale of services to its members and to the general public. According to preliminary financial information, at end-1996 the Association held total assets on the order of US\$1.5 million and net capital of approximately US\$525,000, mainly as a result of a healthy 1996 surplus following losses of about US\$45,000 in 1995.
- 2.14 ASBANC's corporate purposes are to represent the banking sector vis-à-vis the government, monetary and financial authorities, and society generally, and to offer services to its members. As part of the latter, the bylaws specifically spell out the Association's mandate to develop institutions of learning specializing in banking and financial training.

E. Instituto de Formación Bancaria

- 2.15 In August 1995, ASBANC founded its own training agency - Instituto de Formación Bancaria (IFB) - in the form of a nonprofit association. As such, the IFB enjoys legal, political and financial autonomy. ASBANC is the only member of the Association, and a very close relationship between the two organizations ensures that the IFB's business operations will respond to financial sector demand. Indeed, the governance relationship is reinforced even further by the IFB's administrative and economic dependence on ASBANC, which currently subsidizes all of its costs. ASBANC does recognize the need to make the IFB's management and operating functions independent and to appoint full-time administrators as a prerequisite for more vigorous development.
- 2.16 The IFB's objective is to provide specialized training to and upgrade the skills of human resources employed by ASBANC members and other organizations requiring training in banking and finance. The IFB has been accredited by the Ministry of Education as a specialized training institution, and has established cooperation agreements and regular contacts with universities in Peru as well as with counterpart institutions abroad. However, the IFB is still at an incipient stage of institutional development, and its activities are limited. Not until 1996-97 did it organize a few courses on microcredit; these took place under a cooperation agreement with the European Union microenterprise program which concluded at the end of 1997.

- 2.17 Even at this early stage in its development, the IFB is the best choice for carrying out a bank training program because of its close links to ASBANC, ergo to virtually all of Peru's commercial banks. ASBANC is an ideal executing agency since it would enhance the project's credibility and acceptance significantly within the private financial sector. It would also enable a close relationship to be established with the sector, assigning it implicit responsibility for the operation's success as a stakeholder rather than merely a beneficiary.

III. THE PROGRAM

A. Objectives

- 3.1 This operation's general objective is to enhance competition and competitiveness in the financial market, and to contribute to financial deepening over the long term, by providing training services in banking at all levels, relating to small business financing and other areas of financial business.
- 3.2 The specific objective is to assist the IFB in supplying, on a sustainable basis, the demand for banking and financial training from ASBANC member institutions and the general public. To this end, actions are planned (i) to support the organization and development of the IFB's institutional and operating structures, and (ii) to assist the IFB in conceptualizing and delivering a range of banking and financial training services.
- 3.3 The expected outputs would be to: (i) set up banking/financial training courses and programs within the IFB, emphasizing the transfer of technology and best practices in serving various market segments, in particular microenterprises and small businesses; (ii) improve the workings of the banking sector in particular and the financial sector generally, and broaden the range of products and services offered to all economic segments; (iii) create linkages between the Peruvian financial sector and training institutions abroad with extensive experience and a contribution to make to banking technical know-how; (iv) broaden and consolidate the IFB's economic and revenue base to make it self-sustaining in the medium term; (v) position the IFB as a lead provider of banking/financial training products in Peru's educational market; and (vi) disseminate lessons learned and project outputs broadly.

B. Program description

- 3.4 The operation would encompass two major areas of activity that represent different stages in the institutional strengthening and development of the IFB. First, support would be provided for IFB institutional design, i.e. a definition of its organizational

structure, staff requirements, and budgetary and financial development, and for product design, all based on a strategic organization and business plan to be drawn up. Second, support would be provided for the startup of the IFB's operations per se.

1. Advisory assistance for organization and development of IFB institutional structures

- 3.5 Advisory assistance under this component would help the IFB draw up and implement a strategic business plan. Financing would be provided for consulting services specializing in organization and administration of bank training centers. The plan would set forth, *inter alia*: (i) the IFB's mission and objectives, setting specific targets to be achieved in institutional performance and operations; (ii) the training products and services to be offered, based on a market study conducted in advance; (iii) the organization chart and staff requirements - instructors, managers and other employees - along with selection criteria and staff duties and responsibilities; (iv) requirements and design of operating, information and control systems; (v) a service fee structure and preliminary budgets that would enable the IFB to become self-sustaining by the operation's end; (vi) a marketing and promotion strategy; and (vii) monitoring and output evaluation mechanisms.
- 3.6 The plan would serve as a basis for development of the remaining components in the operation and, generally, the IFB's activities. The components would be updated periodically as needed, based on the IFB's institutional and operational development.
- 3.7 This component would finance ongoing management consulting for the IFB's administration throughout the project, to ensure optimum communication among all participants and timely implementation of activities. Advisory assistance would also be funded in specific areas of business plan development and implementation.

2. Design and implementation of training products

- 3.8 As a central activity under this component, the operation would finance specialized consulting services for the design and implementation of training products. Financing would also be provided for the initial hiring of instructors, development and purchase of teaching materials, and adaptation of training infrastructure.

a. Training program

- 3.9 The IFB would be supported in: (i) designing and delivering specific seminars and courses on banking and financial topics, in particular on disseminating appropriate lending technologies to serve new market segments such as microenterprises and small businesses, as well as modern administrative and financial techniques such as risk management, development of banking

products, trends in the economic and legal framework of financial transactions, and funds management, both for the general public and at the request of particular financial institutions; (ii) defining curriculum requirements for education in various bank career specializations and giving the related courses; (iii) designing standardized tests and examinations for various banking positions; and (iv) conceptualizing the curricular and organizational elements of a master's level program in banking and finance to be offered at the graduate level, and advancing implementation of this product.

- 3.10 In developing the supply of training, one area of emphasis would include organizing courses, seminars and on-site training activities to transfer appropriate financial and lending technologies to serve new market segments. Special attention would be given to transferring specialized knowhow for lending and administering loans to microenterprises and small businesses. In carrying out these training modules, the IFB would make use of experience acquired through cooperation with the European Community, as well as best practices.
- 3.11 The IFB training products would be delivered using a whole series of methodologies: formal classroom teaching, computerized banking simulation games, conferences and seminars, distance education, in-house and on-the-job training, and in-service training at financial and other institutions in Peru and abroad. In designing the training products, bridges would be built with the Peruvian educational system to ensure that curricula, as well as IFB certificates and diplomas, are recognized by the competent government authorities and are compatible with products offered by other institutions of higher learning in the country.
- 3.12 A basic core of qualified instructors in banking and finance, both Peruvian and international, would be hired during the initial stage of the project to ensure the timely startup and the quality of the IFB's activities. It is anticipated, however, that part of the IFB training staff would be replaced in the course of the operation with part-time trainers from the Peruvian banking and financial sector, after training by the IFB under its Train the Trainers activities (see paragraph 3.13), as well as guest instructors from financial and educational institutions in Peru and abroad.

b. Training of trainers

- 3.13 The consulting services would assist the IFB in identifying, selecting and training a critical mass of part-time specialized instructors from the Peruvian banking and financial system. This would not only enable the IFB to maintain a smaller staff of full-time instructors but would also ensure ongoing interaction between IFB training activities and the banking sector to bring the curriculum into line with banking realities and fuel a constant reevaluation of IFB products. The use of part-time instructors

from the financial sector would also facilitate decentralization of IFB training activities without raising costs disproportionately.

- 3.14 The training activities would place particular emphasis on training participants in teaching techniques and reinforcing trainers' practical knowledge through presentation and discussion in appropriate theoretical courses. The program would also assist the IFB to design appropriate mechanisms and incentives to keep trainers with the IFB once they have been trained. Plans also call for setting up regular exchange programs with counterpart institutions abroad for IFB training staff, both employees and outside trainers, as a way of providing ongoing academic feedback.

c. Teaching materials and equipment

- 3.15 The IFB would be supported in identifying and financing development and acquisition of teaching materials such as (i) case studies and practical exercises; (ii) workbooks for students; (iii) training manuals for program instructors; (iv) course videos; and (v) banking simulation programs, as well as other auxiliary materials for educational and training activities. The IFB would also be provided with computer hardware and software similar to that used in Peruvian and international financial institutions in risk management, administration, and product development, including products targeted to serving small business.

3. Promotion and cooperation

a. Cooperation and exchanges

- 3.16 To facilitate the commencement of IFB activities and ensure a supply of relevant products in the future, strategic alliances and cooperation agreements would be established with high-level local and international organizations, institutions and companies that enjoy prestige in the areas of education, business and finance. These linkages will provide a platform of support and innovation for the IFB, as well as benchmarks for ongoing evaluation of the quality of its services. The component would support exchanges with institutions abroad by financing in-service training arrangements and travel.

b. Workshops and conventions

- 3.17 The IFB would organize specific conventions and workshops in various cities in Peru to bring together management staff from financial institutions who are responsible for particular operating and administrative areas. These workshops are meant to contribute to the training of bank management staff, stimulate an exchange of experiences, identify training needs, and serve as a marketing instrument. This component would support the IFB in planning and carrying out such events, and would help finance them.

c. Marketing and communication

- 3.18 To lend the IFB momentum in reaching its target market, development and implementation of a marketing and promotion strategy would be supported. This marketing strategy would include a campaign to publish and distribute regular newsletters and maintain an Internet web page, and would keep the IFB in contact with international training institutions. The operation would support the IFB in designing and implementing the marketing strategy and its various elements.

4. Research, development and documentation

- 3.19 The IFB would be supported in designing and equipping a documentation center to facilitate human resources training and contribute reference materials on, *inter alia*, development of Peru's financial sector and economy. Plans also call for setting up an employment information system within the financial sector to compile and organize information on trends in employment supply and demand in the sector.
- 3.20 The documentation center would be open to the public, and a user fee would be charged based on the actual cost of providing the service. This would create a source of additional revenue for the IFB, helping it to achieve self-sustaining status.
- 3.21 As an integral part of the communication and dissemination strategy, the IFB would be supported in publishing and distributing periodical information bulletins outlining progress made on the project and describing products developed. The bulletins would be circulated to financial institutions in Peru and elsewhere in Latin America, as well as to training service providers in Peru and abroad. Consideration would be given to creating a Web site to facilitate broad dissemination of information to the general public. In addition, the project results would be presented at international forums and the IFB would support the Bank in compiling experiences to determine best practices for this type of project. In this context, the IFB would make all materials developed available to the Bank for dissemination in other similar operations outside the country, subject to the appropriate copyright restrictions.
- 3.22 Efforts will be directed toward researching technological developments affecting the delivery of financial services and bank training. These research efforts will focus on (i) developing innovative banking methodologies, including for small business financial services; (ii) benchmarking for financial products and services; and (iii) identifying and designing new training services and materials to be offered by the IFB.

C. Execution

- 3.23 The operation would be carried out over a 42-month period calculated from signing of the agreement.
- 3.24 ASBANC would be designated to act as executing agency, and would assume all legal responsibility toward the MIF in connection with contract performance, as well as contributing local counterpart funding. However, all project activities would be carried out through the IFB.
- 3.25 Since the project activities would focus exclusively on institutional and operational strengthening of the IFB and establishing a sustainable supply of training, ASBANC would appoint an IFB manager to act as counterpart. The IFB would also assign administrative staff to perform planned activities.
- 3.26 To carry out the components described under chapter III.B, ASBANC would hire specialized consulting services from Peruvian and foreign entities having recognized technical expertise and prestige in administering educational establishments and in banking and financial training. This would include hiring instructors to give the initial courses and train the trainers. The IFB could hire a single entity to provide consulting services to carry out all the components or could hire a different entity for each activity. In any case, execution of the component of assistance for organization and development of IFB institutional structures (component I, chapter II.B.1) would be entrusted in its entirety to one entity, which would designate the consulting manager for the operation's life and act as lead consultant for the other consultants to be hired.

D. Reporting

- 3.27 Within 30 days after advising the Bank of the commencement of activities under project component 1, advisory assistance for organization and development of IFB institutional structures (III.B.1), ASBANC would present a preliminary work plan to the Bank covering activities under the project. ASBANC would later present semiannual plans for specific activities and annual reports on activities conducted and results achieved, compared to the targets set.

E. Financing and sustainability

- 3.28 The total project cost is an estimated US\$2 million equivalent, of which US\$1.3 million would be nonreimbursable MIF funding and US\$0.7 million monetary contributions from ASBANC. In addition, ASBANC would make the necessary facilities and administrative support available to the project and cover current expenses. In accordance with MIF procedures, the MIF disbursements would be

made on a pari passu basis with disbursements of the ASBANC counterpart contribution.

3.29 The proposed budget is as follows:

ITEM	ASBANC	MIF	TOTAL
1.1 Consulting services		703,500	703,500
2.1 Local experts	170,000	216,000	386,000
- Instructors	100,000	216,000	316,000
- Market research	20,000		20,000
- Product and technology research	50,000		50,000
6.2 Infrastructure	50,000		50,000
6.3 Equipment	100,000	50,000	150,000
6.4 Materials	125,000	150,000	275,000
6.5 Travel	50,000	50,000	100,000
6.8 Communications	200,000		200,000
8.2 Evaluation		70,000	70,000
98. Contingencies	5,000	60,500	65,500
TOTAL	700,000	1,300,000	2,000,000

3.30 Below is a breakdown of the budget by component and activity:

COMPONENT/ACTIVITY	ASBANC	MIF	TOTAL
1. Advisory assistance and institutional development	20,000	430,500	450,500
2. Product design and implementation	325,000	639,000	964,000
- Training programs	100,000	489,000	589,000
- Teaching materials	225,000	150,000	375,000
3. Promotion and cooperation	250,000	50,000	300,000
- Cooperation and exchanges	75,000	50,000	125,000
- Workshops and conventions	75,000		75,000
- Marketing, publicity and publications	100,000		100,000
4. Research, development and documentation	100,000	50,000	150,000
- Library materials and documentation	50,000	50,000	100,000
- Research	50,000		50,000
5. Evaluation		70,000	70,000
6. Contingencies	5,000	60,500	65,500
TOTAL	700,000	1,300,000	2,000,000

- 3.31 The project's financial sustainability hinges upon the formulation of a business strategy whereby prices and fee schedules set at the outset of operations would cover the direct cost, and increasingly the indirect cost, of producing the services. This aim would be pursued by introducing pricing mechanisms for the various products and services offered, as well as appropriate budget systems and cost controls.
- 3.32 By the end of the operation the IFB is expected to be in a position to cover all its costs and realize a reasonable return on its assets.

IV. DISBURSEMENTS AND PROCUREMENT

- 4.1 Disbursements of MIF funds and the procurement of goods and services would be governed by the Bank's standard procedures. At the executing agency's request, a revolving fund would be set up in the amount of 5% of the MIF contribution. It would be stipulated, as a special condition for disbursement of MIF funds, that the executing agency is to have presented evidence to the Bank that consulting services have been hired for the operation components described in chapter III.B.
- 4.2 The disbursement period would be 48 months from the contract signing date.
- 4.3 Pursuant to the procedures set forth in the Bank's procurement manual, it is recommended that restricted bidding take place to hire the consulting services based on a short-list of qualified institutions and firms, agreed upon in advance by the executing agency and the Bank.

V. VIABILITY AND RISKS

A. Economic and financial viability

- 5.1 The financial and economic viability of the operation and the IFB itself lies in the existence today of manifest gaps in the market for training of human resources in the financial sector and the general public. This situation has led larger financial companies to develop their own training centers or hire outside services, demonstrating a willingness to invest considerable resources in improving the quality of their human resources. Both solutions may be considered of questionable efficiency, however, since they either result in high fixed costs or reduce the likelihood of covering most employees. Moreover, the solutions adopted by the

larger financial institutions would be quite onerous for smaller ones.

- 5.2 These gaps in the bank training market, together with the need for most financial institutions - especially small and medium-sized ones - to train their staff in order to keep up with an increasingly competitive sector, have opened a window of opportunity for the IFB to follow a clearly commercial strategy from the outset. In this way, the costs of supplying the products would be covered, ensuring viability and financial self-sustainability. In addition, the development of a broad range of products targeted to both the financial sector and the general public would help achieve short-term cost coverage through economies of scale. The evaluation of prospects for breaking into the bank training market should also take into account that the IFB products will be backed by ASBANC, whose member banks represent the vast majority of those employed in the financial sector who are in need of training.

B. Institutional viability

- 5.3 ASBANC is the best placed institution to act as executing agency for the operation given the assurances offered by its experience, sound position, leadership and ability to marshal the banking and financial sector to ensure involvement in the project activities. Through ASBANC, the commercial banking sector would become a stakeholder in the project, with strong incentives to make the IFB a high quality, efficient institution sustainable over time. Also, the support of international institutions with recognized expertise and technical skill in administering financial training institutions would reinforce the operation's focus on institutional and financial sustainability.

C. Environmental and social viability

- 5.4 On the question of environmental impact, elements of environmental education will be included when updating the curriculum, such as environmental impact assessment (EIA) methodologies. The Bank's Committee on Environment and Social Impact, at its meeting TRG-40/97 of November 17, 1997, considered this operation and made no recommendations. With respect to social impact, the IFB's activities would encourage participation by both women and men on an equitable basis, and gender considerations would be built into courses.

D. Risks

- 5.5 The operation faces both the typical market risks that affect any commercial operation and institutional risks relating to cooperation with the IFB. The main risks relate to: (i) the IFB's institutional and financial sustainability beyond the three years of project execution; (ii) weaknesses in the IFB's administrative

apparatus given its recent creation and lack of experience in managing this type of program in a timely and efficient manner; and (iii) the IFB's ability to attract and retain high quality staff, especially teaching staff.

- 5.6 These risks would be attenuated through activities proposed under the "advisory assistance for organization and development of IFB institutional structures" component (III.B.1) and those targeted at efficiency and cost coverage. This will promote a business approach in the IFB's operations to equip it with prestige and capacity to make it a sustainable training forum capable of meeting demand for training and upgrading in the financial sector and the general public. The program will also benefit from ASBANC's experience and support, the participation of institutions with recognized expertise in bank training, and close, frequent supervision by the Bank's Country Office and the MIF to allow for any needed adjustments.

VI. FULFILLMENT OF PROJECT ELIGIBILITY CRITERIA

A. General project eligibility criteria

- 6.1 The proposed project is consistent with the Agreement Establishing the Multilateral Investment Fund.

B. Project eligibility criteria of the Small Enterprise Development Facility

- 6.2 This proposal meets the criteria for access to grant funding under the MIF Small Enterprise Development Facility, which promotes business cooperation and the expansion of productive services. Both purposes would be served, on the one hand, by introducing a supply of training from a private-sector entity and, on the other, by the positive effects on the supply in the financial market as bank technology improves. The latter would be of particular benefit to small and medium-sized enterprises.

VII. CONSISTENCY WITH THE BANK'S PROGRAM

- 7.1 This project is consistent with the Bank's strategy in Peru since it would contribute to developing human resources generally and in the banking sector in particular, thus strengthening financial intermediaries and allowing more capital to be mobilized for the private sector. Also, IFB operations would serve to reinforce achievement of one of the Peruvian government's and the Bank's policy objectives: improving access by microenterprises and small businesses to competitive, sustainable financial services.

VIII. AVAILABILITY OF MIF RESOURCES

- 8.1 Type of financing. The project is expected to be financed by a grant, since (i) the Republic of Peru was declared eligible for all types of MIF financing by the Donors Committee on December 14, 1993; and (ii) Peru meets the eligibility criteria for MIF grant funding (Article 3, Section 5b, of the Agreement Establishing the MIF) as indicated in the country eligibility memorandum.
- 8.2 Also, the use of MIF grant funds to strengthen a bank training institution is justified by the positive impact this would have on the country's development and on poverty reduction, by helping to raise the standard of training for the workforce in the country generally, and for human resources in the financial sector in particular. Improved technology in the financial system would ultimately help advance the financial deepening process efficiently, allowing economic segments hitherto unserved - such as small businesses - to benefit from better access to financial services. Improving economic conditions for small businesses would also benefit society's more vulnerable groups.
- 8.3 No restrictions apply either to the allocation of MIF resources for Peru or to this specific project.

IX. EVALUATION

- 9.1 Financing for the operation would include funds to conduct two MIF/Bank evaluations during execution. The first would take place 12 months after disbursements of MIF funds begin, and the second at the project's end.
- 9.2 The first evaluation would focus on reviewing initial activities performed by the IFB, considering: (i) organizational adjustments in personnel structure and assignment of counterpart staff as well as the design and implementation of administration and information systems; (ii) formulation of the business plan and implementation of its components; (iii) progress on defining, designing and implementing training products, based on curriculum development as well as the actual supply of products; and (iv) definition and implementation of appropriate financial control, costing and pricing systems, as well as product development and marketing policies, to ensure the IFB's economic sustainability. Based on the results of this evaluation, the project will be continued, adjusted and/or reformulated in part, or suspended entirely. The second evaluation would focus on the effectiveness of the project as a whole, the IFB's institutional and financial viability, the efficiency and effectiveness of services provided, and demand for services. Project impact would also be assessed by means of

surveys of: (i) some of the financial institutions requesting the IFB's services; (ii) some of the financial staff trained by the IFB, and their professional development; (iii) a sample of nonbanking personnel trained by the IFB.

- 9.3 Consulting services to conduct the evaluations would be hired and supervised by the Bank in coordination with the IFB, using funds budgeted for this purpose (see paragraph 3.29).

LOGICAL FRAMEWORK

PROGRAM	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Objective is to enhance competition and efficiency in the financial market, and to promote financial deepening, by providing training and technical assistance at all levels, relating to small and microenterprise financing and other areas of business.</p> <p>Objective is to strengthen the IFB so it can operate on a sustainable basis, the demand for financial training from ASBANC member banks to the general public. Accordingly, the project will:</p> <ul style="list-style-type: none"> (i) to support the organization and management of the IFB's institutional and operating structure (ii) to assist the IFB in conceptualizing and implementing a range of banking and financial training products 	<ul style="list-style-type: none"> - Competitive real interest rates - Broader range of financial products - Broader range of segments served - IFB with organizational and institutional structure established - IFB staffed - IFB offering training products regularly 	<ul style="list-style-type: none"> - Reports from the Bank's Country Office in Peru - Reports from consultants - Specialized press - Official government data - Organization chart - List of personnel - List of courses 	<ul style="list-style-type: none"> - Macroeconomic and socio-political stability - Collaboration of ASBANC and the private financial sector
<p>Component and activities</p> <p>Technical assistance for organization and management of IFB institutional structure, preparation and implementation of a strategic business plan. Such a plan would serve as a guide for the remaining components and IFB management generally.</p>	<ul style="list-style-type: none"> - A strategic business plan prepared and implemented nine months after project begins 	<ul style="list-style-type: none"> - The plan and its components - Inspection visits and reports from the Country Office in Peru - Reports and observations of the expert hired for this activity - Semiannual plans and annual reports presented by ASBANC - Evaluation reports 	<ul style="list-style-type: none"> - Experts with the required skills and experience can be hired - The strategic business plan reflects IFB needs and pursues IFB objectives - IFB/ASBANC accept the plan and collaborate on implementation

PROGRAM	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Design and implementation of training products, the following activities:</p> <p>Program: (i) design and deliver specific courses and seminars on banking and financial issues; (ii) define curriculum requirements in various bank career specializations up with the necessary courses; (iii) develop standardized tests and exams for bank positions; (iv) conceptualize and organizational elements of a master's degree in banking and finance, and implementation of this product; and (v) develop basic core of recognized financial instructors to ensure implementation of IFB activities</p> <p>Training of trainers: (i) identify, select and train a class of specialized instructors from the banking/financial system; (ii) set up for regular exchanges for IFB training staff with counterpart institutions abroad.</p> <p>Materials and equipment: (i) finance develop teaching materials and auxiliary materials; (ii) furnish the IFB with computer and software.</p>	<ul style="list-style-type: none"> - At least two specific individual courses (of different duration) and seminars given each month on banking and financial issues, by 36 months after project begins - Curricula defined for each target bank career specialization, by 36 months after project begins - Standardized tests designed for each target bank career specialization, by nine months after project begins - Curricular and organizational elements of a master's degree in banking and finance conceptualized, by 24 months after project begins - Implementation of a master's degree in banking and finance advanced, by 36 months after project begins - Basic core of banking/financial instructors hired, by 12 months after project begins - Regular exchange system for IFB training staff with counterpart institutions abroad set up, by 12 months after project begins - Required teaching materials developed and acquired, by 12 months after project begins 	<ul style="list-style-type: none"> - Inspection visits by responsible staff in Country Office - Semiannual plans and annual reports presented by ASBANC - Evaluation reports - Course documentation - List of participants 	<ul style="list-style-type: none"> - The training program is designed and carried out in such a way as to meet objectives - A critical mass of specialized instructors are identified - There are Peruvian and international institutions interested in taking exchange activities - There are banking and financial personnel interested in exchange activities - Access to software packages

PROGRAM	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Strategic alliances and cooperation:</p> <p>Strategic alliances and exchanges, through strategic alliances and cooperation agreements with local financial establishments, financial institutions, professional associations, enterprises, and government agencies of high level and prestige.</p> <p>Workshops and conventions in various Peruvian cities, bringing together management staff from financial institutions, to contribute to training bank personnel and stimulate exchanges of knowledge and experiences. This will allow training personnel to be identified and serve as a marketing strategy.</p> <p>Marketing and communication, through a marketing and promotion strategy to include an information campaign with publication and distribution of regular newsletters, and a web page specially designed for the IFB, to be set up and maintained on the Internet.</p>	<ul style="list-style-type: none"> - Strategic alliances and cooperation agreements concluded, 12 months after project begins - At least two workshops and/or conventions held each year, 36 months after project begins - Marketing and communication strategy designed and set up, six months after project begins - Newsletters published and distributed at 12, 24 and 36 months after project begins 	<ul style="list-style-type: none"> - Inspection visits by responsible staff at Country Office in Peru - Semiannual plans and annual reports presented by ASBANC - Evaluation reports 	<ul style="list-style-type: none"> - Strategic alliances and cooperation agreements are established which benefit both the IFB and its partners - There is interest on the part of financial institutions in attending workshops and conventions - A marketing and promotion strategy is established which contributes to achieving the IFB's objectives
<p>Research, development and documentation:</p> <p>Documentation center to facilitate training of bank personnel and contribute reference materials on the Peruvian financial sector and its development.</p> <p>Research activities on developments in technology used in delivering financial services and training services. Such activities are (i) developing innovative banking technologies, including for financial services for enterprises and small businesses; (ii) marketing financial products and services; (iii) designing new training services and materials to be provided by the IFB.</p>	<ul style="list-style-type: none"> - Documentation center set up at IFB, 24 months after project begins - Program/plan of research activities for technology development in delivery of financial services and bank training services carried out, 36 months after project begins 	<ul style="list-style-type: none"> - Reports and observations by experts - Inspection visits by responsible staff at Country Office in Peru - Copy of program/plan of research activities - Semiannual plans and annual reports presented by ASBANC - Evaluation reports - Documentation center operating 	<ul style="list-style-type: none"> - Reference materials available at documentation center are of high quality and most recent in technology - Experts with the required skills and experience can be hired

PROPOSED RESOLUTION

PERU. NONREIMBURSABLE TECHNICAL COOPERATION FOR A SUPPORT PROGRAM
FOR THE INSTITUTO DE FORMACION BANCARIA

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 project proposal referred to in Document MIF/AT- with respect to a technical cooperation program with the Asociación de Bancos del Perú (ASBANC) to develop a support program for the Instituto de Formación Bancaria.

2. That up to the amount of US\$1,300,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.

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