

TC Document

I. Basic Information

▪ Country/Region:	Regional: Bolivia, Brazil, Colombia, Peru, and Uruguay
▪ TC Name:	Financial Stability and Development Group
▪ TC Number:	RG-T2426
▪ Associated Loan/Guarantee Name:	N/A
▪ Associated Loan/Guarantee Number:	N/A
▪ Team Leader/Members:	Eduardo Fernández-Arias (RES, Team Leader); Eduardo Borensztein (CSC/CSC), Kevin Cowan (CAN/CAN), Diego Valenzuela (LEG/SGO), Liza Lutz (LEG/SGO), María Eugenia Roca (VPC/FMP), Myriam Escobar (RES)
▪ Date of TC Abstract authorization:	December 4, 2013
▪ Beneficiary:	Central Banks of Bolivia, Brazil, Colombia, Peru and Uruguay
▪ Executing Agency and contact name:	IDB, Research Department (RES)
▪ IDB Funding Requested:	US\$1,150,000 from the Facility for the Promotion of Regional Public Goods (FRPG-OC)
▪ Local counterpart funding, if any:	US\$650,000
▪ Disbursement period:	42 months
▪ Execution period:	36 months
▪ Required start date:	May 01, 2014
▪ Types of consultants:	Individual Consultants
▪ Prepared by Unit:	RES, CSC and CAN
▪ Unit of Disbursement Responsibility:	Research Department (RES)
▪ TC Included in Country Strategy:	N/A
▪ TC included in CPD:	N/A
▪ GCI-9 Sector Priority:	Global International Integration; Cross-cutting (Macroeconomic Analysis, Capacity Building)

II. Objectives and Justification

- 2.1 The main objective of the TC is to enhance policy making in the monetary and financial areas by the Central Banks of Bolivia, Brazil, Colombia, Peru and Uruguay by means of regional cooperation and the strengthening of the Financial Stability and Development Group (FSD). This objective has a strong regional public good component due to the beneficial

spillover effects of information sharing and policy cooperation. The whole South American region faces similar challenges arising from the global financial environment, and a potential risk of spillovers in view of the growing trade and foreign direct investment linkages within the region. For example, policies toward capital flows or the exchange rate by one central bank can have a large impact on its neighbors, either through “contagion” of market perceptions, which has been pervasive in international financial markets, or directly through real and financial spillovers through the external accounts of each country. This initiative also promotes upgrading regulatory capabilities for the development of credit and financial markets, which also generate positive cross-border externalities. The group will also share expertise and technical assistance not only among themselves but also, and perhaps especially, to benefit central banks with fewer financial and human resources.

- 2.2 The aftermath of the global financial crisis has posed multiple policy challenges for South America, including increased economic uncertainty, volatility in commodity prices, and bouts of sudden surges and sudden stops of short-term financial capital. So far, the policies adopted by South American central banks have been broadly successful in preserving macroeconomic and financial stability in the region. Nevertheless, the volatile international environment and complex domestic and external policy problems continue to put monetary authorities under pressure. In response to this situation, a core group of South American Central Banks (Bolivia, Brazil, Colombia, Peru and Uruguay) have asked the IDB to facilitate a joint initiative to learn from each other and internalize the spillovers of their policy actions. Facing similar risks and policy issues, the monetary authorities in the region would greatly benefit from a fuller understanding of international and regional economic developments as well as the repercussions of policy actions that would result from their close interaction. In turn, this collaboration would pave the way for an enhancement of policy cooperation, as the analysis and discussion will reveal and clarify opportunities for policy coordination and mutual support. Such cooperation holds promise for financial stability and development in the whole region.
- 2.3 To enhance their policy responses through a cooperative effort and to catalyze broader regional collaboration, these five central banks have established the Financial Stability and Development Group (FSD).¹ The FSD will strive to expand its membership among South American Central Banks and to fill existing gaps in several areas, including: boosting the flow of data and information among the central banks; maintaining a regular, well-informed policy dialogue; building a common research and knowledge dissemination agenda; enhancing analytical capacity applied to policy issues; discussion of topics of current relevance in international forums (such as CEMLA, G20, FSB, Regional FSB, CCA-BIS, and IMF-World Bank) to improve mutual understanding and help achieve agreements on policy responses to the regional challenges; sharing knowhow and best practices in order to help central banks on many of their responsibilities.

III. Description of activities/components and budget

¹ This initiative was granted financial support by a short-term SECO’s Technical Cooperation RG-T2325 approved in December 2013 designed to facilitate the establishment of the Financial Stability and Development Group while this BPR Technical Cooperation was processed and approved.

- 3.1 This TC is complementary to TC RG-T2325, approved in 2013. The use of the resources under this TC will mostly take place after the resources from TC RG-T2325 are exhausted except for some uses that are not envisaged under TC RG-T2325 and can be covered under this TC (such as financing expenses of central bank officials to participate in activities of the Financial Stability and Development Group). Therefore, both TC RG-T2325 and this TC will be applied, mostly sequentially, to respond to the same request by the group of central banks to strengthen their common effort to foster stability and financial development.² For this reason, the components of both TCs are largely common. The initial experience with some of the activities has revealed keen interest from participant central banks and solid prospects for incorporating additional countries to the Group.
- 3.2 To achieve the above-mentioned objectives and provide the basis for the Group's consolidation and growth, the components and activities described below are envisaged. Because the Group will formulate its work program after an exchange of ideas and in line with the changing international environment, the specific outputs and modalities, as well as the specific topics for studies and seminars, that are described below may be modified accordingly.
- 3.3 **Component 1:** Strengthen coordination among South American Central Banks. This includes:
- a. Preparation of a Work Program. The Group, with the technical support of the Bank, will discuss and formulate periodic Work Programs that will include a research agenda and a plan of meetings and other activities.
 - b. Information sharing and exchange of views. To set the stage for fuller coordination, Group members will maintain a periodic policy dialogue at various levels through various platforms for the regular exchange of views and data to inform macroeconomic policy decisions.
- 3.4 **Component 2:** Promote analytical capacity in the area of policy research by stimulating in-house research capacity of Central Bank and leveraging it with international experts. This includes:
- a. Policy Research Papers and Seminars. The Group will hold seminars and workshops on key topics as determined in the Work Program. Seminars will bring together international experts and policymakers, technical staff and senior management of the member Central Banks and IDB staff. Staff from other regional Central Banks may also be invited to participate in seminars. The FSD, with Bank support, will define the areas of policy research and decide on the topics of the discussions and the analytical inputs to be prepared. This TC will finance policy research papers that will be presented at the seminars, as well as the participation of international academics and experts in panel discussions. The host Central Bank will be in charge of logistical arrangements and costs. This TC may also finance travel costs for officials from those member central banks that may need resource support.

² Request letters apply to both TCs. The indicative budget (paragraph 3.6) is complementary to the budget of TC RG-T2325, which started its execution in December 2013.

- b. Publication of policy research papers and booklets summarizing conclusions reached on the basis of the Group’s analytical work and debate, in order to disseminate the views of the Group among other Central Banks and relevant policy forums. The TC will cover publication and dissemination costs.

3.5 **Component 3:** Capacity building on technical and operational matters. This will include

- a. Training courses to help central banks strengthen their own inflation targeting regimes, financial indicators or other issues of relevance for financial stability and development, as determined by the Group’s Work Program. The TC will cover the cost of the course, such as course materials and travel costs of trainers and some Central Bank participants, and the host Central Bank will be in charge of logistical arrangements and organization costs.
- b. South-South Technical Assistance. This TC will support projects of bilateral technical assistance among member central banks covering the travel expenses involved. Under this format, experienced staff from one central bank will provide advice to their peers in another central bank to help strengthen capabilities and operational frameworks. Outside experts may also be contracted to contribute to the technical assistance project as appropriate.

3.6 The objective of this TC falls within the Bank’s GCI-9 sector priorities of Institutions for Growth and Social Welfare and Competitive Regional and Global International Integration. It will assist the beneficiary countries to strengthen their institutional capabilities for the development of stable credit and financial markets and increase the scope for positive cross-border externalities. It will deepen regional international integration of South America and contribute to global international integration, especially in the area of policy coordination and management of international financial flows.

Table 1. Indicative Results Matrix

	Unit	Baseline value	Planned	Expect. completion date	Data Source
Outcome: Strengthened policy dialogue and cooperation among South American Central Banks					
Outcome indicator 1. Number of joint reports on issues of common concern	#	0	3	Mar 2017	Documentation provided by central banks
Outcome indicator 2. Number of South American central banks that participate in the Group for Financial Stability and Development	#	5	7	Aug 2014	Documentation provided by central banks
Output 1: Coordination among South American Central Banks strengthened					
Output indicator 1.1 Annual Plan of Network activities agreed	#	0	3	Jun 2014 Jun 2015 Jun 2016	Documentation provided by central banks (IDB Docs)
Output indicator 1.2 Annual Network research agenda agreed	#	0	3	Jun 2014 Jun 2015 Jun 2016	Documentation provided by central banks (IDB Docs)
Output indicator 1.3 Website or sharing technology in use	#	0	1	Jun 2014	Internet/URL (On-line location acceded by team leader)
Output 2: Analytically rich body of knowledge generate and discussed in policy dialogue forums					
Output indicator 2.1 Peer reviewed papers produced	#	0	12	Mar 2017	IDBdocs
Output indicator 2.2 Conferences/workshops organized	#	0	6	Mar 2017	Agenda in IDBdocs
Output 3: Network members’ technical and operational capacity enhanced					

Output indicator 3.1 Number of central banks employees/ officials trained	#	0	80	Mar 2017	Document provided by the host central bank/final report of the expert providing training
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3.7 The total amount of this TC is US\$1,800,000, of which up to the amount of US\$1,150,000 will be financed on a non-reimbursable basis with the OC resources from the Facility for the Promotion of Regional Public Goods. The remaining US\$650,000 will be provided as the local counterpart, of which US\$150,000 will be monetary contribution to cover the costs of participation of technical staff and senior management of Central Banks in seminars and other meetings, and US\$500,000 will be in-kind contribution, consisting of staff time devoted to this project.

Table 2. Indicative Budget (US\$)

Component/Activity	Description	IDB/Fund Funding	Counterpart Funding	Total Funding
1. Strengthening collaboration		200,000	0	200,000
Coordination	Consultants	190,000		190,000
Logistics	Software and technology services, etc.	10,000	0	10,000
2. Strengthening analytical capacity		710,000	590,000	1,300,000
Consultancies (for papers)	12 contracts for \$25,000 average	300,000	0	300,000
Consultancies (for strategy and policy advice)	4 retainers per year	90,000	0	90,000
Consultancies (seminar participation)	Fees and travel expenses, panelists	260,000	0	260,000
Staff time research and policy analysis			500,000	500,000
Policy dialogue events and seminars	Logistics and Travel expenses, members	30,000	90,000	120,000
Publications	Editing, design and printing services	30,000	0	30,000
3. Training and Technical Assistance		240,000	60,000	300,000
External expert	6 consultancy contracts	180,000	0	180,000
Organization and logistics	Logistics and travel expenses of members	60,000	60,000	120,000
TOTAL		1,150,000	650,000	1,800,000

IV. Executing agency and execution structure

4.1 The executing agency will be the Bank, through RES/RES. The clients consider that execution by the IDB would be the best arrangement. The Bank enjoys a uniquely close working relation with this Group of central banks and has developed mutual trust and fluid communications. The Bank organizes a network for central bank chief economists, has economists and financial sector specialists deployed in the countries and has co-sponsored

seminars and training courses with the central banks of this Group. More importantly, the Bank is viewed as an honest broker among national interests and viewpoints on financial policy and stability, as expressed in the letters of commitment from the central banks.

- 4.2 The Bank will maintain a fluid dialogue with all Group members in seeking and executing recommendations and proposals. In this regard, the Bank will gather suggestions for activities from the members of the Group, help refine and prioritize ideas, and submit the proposals for consideration of the Group. The Bank will help create working groups, comprising subsets of the member central banks, to develop topics that the Group has agreed to pursue and provide support for the functioning of the working groups.
- 4.3 The Bank will assist the Group members in the coordination of meetings (in person and remote), development of the necessary analytical inputs, and technology tools to enhance the exchange of views and macro-financial information. It will ensure that all participating Central Banks are involved and play a part in planning objectives and activities; in organizing meetings and being responsible for logistics; and in the drafting of summary documents and associated communiqués. The IDB will create a site to gather data, documents, news and information about seminars and other activities of the Group as well as discussion forums on economic and financial issues of current interest. A consultant will be hired in order to assist in these coordination activities.
- 4.4 Each member Central Bank will designate a representative to the FSD to serve as focal point for discussions and communications within the Group. These representatives will also be responsible to articulate all the different internal areas of the member central banks as appropriate. The IDB will also designate focal points for this purpose.
- 4.5 Procurement: The Bank will hire consulting services (individuals and firms) and non-consulting services in accordance with current policies and procedures for institutional procurement.

V. Major issues

- 5.1 The main risk of the project is that country circumstances may lead to a decline in interest for the use of the TC resources, because other pressing policy concerns take priority over the time of country officials or for some other reason the desire for cooperation declines. This risk is low because the Group is in a launching phase, with a very energetic leadership of the Central Bank of Brazil, and the international situation continues to pose pressing challenges.
- 5.2 There is the opposite risk that demands on the Bank prove excessive for available internal resources of staff, which may cause an unsatisfactory delivery. This risk is mitigated by the availability of a group of macroeconomists in RES as well as CSC and CAN who are experts in these issues and can be involved in this project. The Bank has substantial experience in leading dialogue networks such as the Network of Central Banks and Finance Ministries, and effectively engaging policymakers and mobilizing expert consultants to meet objectives.

VI. Exceptions to Bank policy

6.1 None.

VII. Environmental and Social Strategy

7.1 This project was classified by ESG as category C according to the Environment and Safeguards Compliance Policy (OP-703) (see [Safeguard Screening Form](#) and [Safeguard Policy Filter Report](#)).

Required Annexes:

Annex I - [Letters of Request](#)

Annex II - Terms of Reference

[TOR Strategic Advisor](#)

[TOR Paper for FSD](#)

[TOR Model for Training](#)

Annex III - [Procurement Plan](#)

FINANCIAL STABILITY AND DEVELOPMENT GROUP

RG-T2426

CERTIFICATION

I hereby certify that this operation was approved for financing under the Facility for the Promotion of Regional Public Goods (RPG) in compliance with resolution DE-189/13 approved by the Executive Directors on December 4, 2013 and its extension sent by Kai Hertz (ORP/GCM) on April 16, 2014. Also, I certify that resources from the Facility for the Promotion of Regional Public Goods (RPG) are available for up to US\$1,150,000 in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of four (4) calendar months counted from the date of signature below. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in U.S. dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.

Original Firmado

04/21/2014

Sonia M. Rivera
Chief

Date

Grants and Co-Financing Management Unit
ORP/GCM