

**FINANCIAL RISK ASSESSMENT IN AN INTEGRATING REGION:  
THE CARIBBEAN**

**Terms of Reference**

## ABBREVIATIONS

BIS	Bank for International Settlements
CARTAC	Caribbean Regional Technical Assistance Centre
CDB	Caribbean Development Bank
CCMF	Caribbean Centre for Money and Finance
FSR	Financial Stability Report
IDB	Inter American Development Bank
IMF	International Monetary Fund
UWI	University of West Indies
WB	The World Bank

**Objectives:** To develop and upgrade methodologies for the overall assessment of the financial stability of the Caribbean region, including financial soundness indicators and early warning systems; to contribute to upgrading national financial stability reports; and to publish a regional financial stability report.

**Execution period:** 36 months.

**Coordination with other agencies:** An objective of this project is to work closely with the Central Banks in the Caribbean region. Moreover, CCMF has a mandate to work in this area from the CARICOM Council of Ministers of Finance and Planning (COFAP). CCMF has strong ties with other agencies including CARTAC, the IMF, the CDB, the BIS, the World Bank and will closely coordinate with these and other agencies as required in the course of this project.

## I. PROGRAM DESCRIPTION

### 1. Program goal and purpose

1.1 **The expected outputs are** (i) a set of financial stability indicators at the national and regional level (ii) papers by participating central banks using those indicators and appropriate methodologies of financial stability in their respective countries as inputs in the and upgrade production and upgrade of national financial stability reports (iii) publications by the CCMF employing the national and regional indicators and the output of the participating central banks to analyze financial stability at the regional level. One publication envisaged at this level is a regional financial stability report.

### 2. Components

#### Component 1: Publications

1.2 **Review Paper.** A review of disclosure and reporting standards, financial soundness indicators, financial risk analysis methodologies and financial stability policy, comparing existing practices with best practices and making recommendations especially in view of integration towards standardization and information sharing.

1.3 **Papers from Participating Central Banks.** Each participating central bank would be asked to prepare a short paper on their current policies and plans for developing financial soundness indicators and stability analyses.

1.4 **Regional Financial Stability Report (RFSR).** After month 18, it is envisaged that the CCMF would start to produce a pilot preliminary Regional Financial Stability Report using the inputs from the participating central banks and that a first version would be produced by month 24-26 of the project.

1.5 The measurable outputs of this component are the papers that would be produced; and an indicator would be the number of papers.

## **Component 2: Conferences**

- 1.6 **First Conference.** Within the first 6-8 months of the project a conference would be held with the participating central banks, CCMF, IDB and other institutions as appropriate. An objective of the conference would be to draft an action plan for the implementation of a suitably upgraded financial stability framework, with timetables for actions by each central bank and the CCMF. Moreover a final decision would be taken on the papers to be written on particular methodological or other issues.
- 1.7 **Second Conference.** A second conference would be convened in the 15<sup>th</sup>- 18<sup>th</sup> month of the project. An objective of this conference would be to review progress on the implementation of the recommendations, and to agree the scheduling of financial stability reports to be published by CCMF and regional central banks.
- 1.8 The measurable output of this component is the organization and completion of the conferences, and the action plans and reviews of progress developed. The indicator would be the successful organization and completion of up to two conferences.

## **Component 3: Training and Systems**

- 1.9 A further component of the project would be the **training of a sufficient cadre of staff of CCMF and central banks** in the region in the generation and manipulation of financial risk indicators and the completion of national and a regional financial stability reports. The objective of this component is that by month 36, when the project concludes, the region has a system in place for national financial stability analysis which would feed into regional financial stability analysis.
- 1.10 The measurable output of this component is the staff in CCMF and participating central banks that participated in the conferences above or through other means received appropriate training. The indicator would be the number of staff that received such training.

## **II. PROJECT EXECUTION**

- 2.1 **Executing Mechanism:** A Consultant will be selected and hired to coordinate the project with the agreement of the IDB and to be based at UWI (CCMF) Trinidad. The consultant would be contracted by UWI and under its contracting rules to work with the CCMF on this project. The consultant will be responsible for coordinating the project, including contributing to and editing the technical papers. The consultant would liaise with the participating central banks and discuss with them their own financial stability analyses (complemented by TA from CARTAC to those central banks). The consultant would also be the lead author for the prototype of the regional financial stability report. The consultant would lead the preparation of indicators of regional financial stability, the writing of assessments of regional risk exposures and draft recommendations for regional

financial policy, to be submitted periodically to the Committee of Central Bank Governors. The CCMF will recruit a suitably qualified and experienced person to understudy the consultant, and to assume these responsibilities when the project is complete. The last phase of the project would be devoted to building the capacity at CCMF to produce and publish the regularly scheduled FSR.

- 2.2 **The execution calendar:** the table below gives additional details regarding the planned execution of the project.

#### **Execution Calendar**

Conference to prepare draft action plan for the upgrade of the financial stability framework	6 <sup>th</sup> - 8 <sup>th</sup> month
Action plan for the upgrade	End of 8 <sup>th</sup> month
Completion of studies on methodological and related issues	End of 14 <sup>th</sup> month
Conference on progress report and to schedule FSRs	15 <sup>th</sup> – 18 <sup>th</sup> month
Agreement on data, methodologies and publication schedules for FSRs	End of 18 <sup>th</sup> month
First regional FSR published by CCMF	End of 24 <sup>th</sup> month
FSRs published by national authorities using upgraded methodology	24 <sup>th</sup> to 36 <sup>th</sup> months
Final report of the project	End of 36 <sup>th</sup> month

### III. MONITORING AND EVALUATION

- 3.1 **Monitoring and evaluation** The consultant to be retained by UWI (CCMF) will prepare a quarterly memorandum on the progress with the project, to be submitted to the IDB within five working days of the end of each quarter. In addition, the action plan for the regional financial stability framework will be sent to IDB for comment, and a report on the second conference will be prepared and submitted to IDB. A final report and evaluation of the project will be submitted to IDB at the termination of the project.
- 3.2 The team members at the IDB will monitor and evaluate the project. On a day to day basis monitoring will be carried out by the team members in COTT. A copy of all of the papers produced by the project will be sent to the CMF and the CCB for their review and evaluation. Some members of the team will participate in the two conferences to be organized to review the progress. Overall monitoring and evaluation will be provided by the Team Leaders (CCB,) with the help of CMF and COTT. These three team leaders will agree an overall evaluation of the final project report and the project itself.
- 4.3 The project team will also seek to appoint external reviewers likely current employees of an extra-regional Central Bank that currently produces a Financial Stability Report. Possibilities include a senior officer from the Bank of England, the Bank of Canada, the Bank of Spain or the Central Bank of Chile. The external reviewer(s) will provide advice on the planned financial indicators to be produced, the analytical analysis to be performed and the organization of the Financial Stability Report. It is hoped the external reviewers may participate in the planned conferences associated with this project. The final project report and evaluation will also be sent to the external reviewers for their comment. Given that the external reviewers come from central banks it is not envisaged that payments would be necessary and indeed would likely not be accepted. The project will also be externally audited and an amount is budgeted for that purpose.