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**FINANCIAL SECTOR
DEVELOPMENT PROJECT**

**Summary Descriptions of
all FSDP Engagements**

February 1989 - August 1991

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SUMMARY DESCRIPTIONS OF ALL FSDP ENGAGEMENTS

- | <u>NO.</u> | <u>LOCATION</u> | <u>TITLE</u> |
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| 1. | <u>West Bank/Gaza</u> | <u>Credit Guaranty Facility Feasibility Study</u> |

Given the limited availability of credit facilities for Palestinian small and medium-sized enterprises, the Asia/Near East Bureau sponsored an FSDP consultant to assess the potential for a credit guarantee program in the West Bank/Gaza. The consultant interviewed twenty-five persons in banking, government, industry and private voluntary organizations and prepared a report that discussed economic and financial conditions. The consultant found that the West Bank/Gaza's economy is constrained more by political and security realities than by economic ones. In particular, the report highlighted the continuing demand for short-term credit by small industries and merchants and concluded that the proposed USAID/Jordan loan guarantee program would have a high probability of success. This activity is complete and the final report was submitted in June 1989.

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| 2. | <u>Jordan</u> | <u>Financial Markets Development Strategy</u> |
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An FSDP Team was contracted by USAID/Jordan to develop a comprehensive financial markets strategy that would identify constraints to financial sector development and recommend ways to overcome them.

The FSDP team offered approximately twenty recommendations aimed at assisting the Mission in the development of a full-scale financial sector development strategy. The strategy would aim to foster greater competition among banks and to help the Jordanian financial sector develop a wider variety of financial instruments. The team recommended that in order to facilitate greater competition among banks, USAID should encourage the modification of the role of the Central Bank from that of a prior approver of individual credits to that of a prudential regulator and supervisor. This activity is complete and the final report was submitted in May 1989.

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| 3. | <u>Belize</u> | <u>Financial Sector Survey</u> |
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FSDP conducted a survey of the Belizian financial sector, at the request of USAID/Belize. The FSDP team found that commercial bank domination of the financial sector reduces competition. The team also found the commercial banks to be deficient in their project analysis capabilities. The FSDP team identified possible

areas for A.I.D. intervention, including policy dialogue, technical assistance and training programs to address these constraints. The team found USAID/Belize to be well positioned to play an active role in policy dialogue between donor organizations, Belizian financial institutions, and the government, and to provide targeted assistance to selected financial institutions. This activity is complete and the final report was submitted in May 1989.

4. Washington A.I.D. and the Debt Crisis Seminar

This seminar brought together a group of distinguished bankers and economists to exchange ideas with the A.I.D. Administrator and selected senior staff about the appropriate role for A.I.D. in contributing to the planning and execution of U.S. Government strategies to deal with the LDC debt crisis. Participants discussed the status of the crisis, alternative strategies and innovative approaches for alleviating the debt crisis. Among the specific program initiatives identified for A.I.D. were debt-for-development programs and technical assistance and training in financial sector development. This activity is complete and conference proceedings were compiled following the event.

5. Cote D'Ivoire Debt/Equity Conference

A.I.D., in conjunction with OPIC and the African Development Bank, sponsored a workshop on debt conversion techniques in Abidjan. An FSDP consultant was contracted to present an overview of worldwide debt conversion trends and to provide an update on worldwide country debt conversion programs. The consultant focused on such factors as the current status of legislation and regulations, the types of debt conversion transactions executed, the volume of debt conversion transactions and trading discounts. This activity has been completed.

6. The Gambia Stock Market Feasibility Study

FSDP was contracted by USAID/The Gambia to analyze the feasibility of establishing a stock market in the Gambia since the absence of an equities market was viewed as an obstacle to privatization. The FSDP consultants concluded that a stock market is presently not feasible for a number of reasons, including the small size of the country's economy, a lack of investor demand for securities and the limited number of enterprises that would be likely candidates for a public offering of securities.

The FSDP team recommended alternatives to the establishment of an organized trading exchange, and offered strategies aimed at creating the necessary pre-conditions for equities trading at a future date. For example, the Central Bank is targeted to

work with commercial banks to "open a window" for information and trading of publicly owned shares. This engagement has been completed and the final report was submitted in May, 1989.

7. Pakistan Hab River Power Group Proposal Evaluation

At the request of the Government of Pakistan, USAID/Pakistan contracted FSDP to serve as an advisor to the government in analyzing a proposal by the Hab River Power Group to construct a private power plant. The FSDP team conducted contractual, financial and financial risk analyses of the proposal, and assisted the government throughout a series of negotiations which culminated in the signing of an Implementation Agreement and a Power Purchase Agreement.

Among the conclusions found in the extensive FSDP evaluation were: (1) the principle sources of financial risk are operational factors, such as working capital requirements; (2) the necessary capital can be raised, since offshore investors and Pakistani nationals view the project as an attractive investment; (3) the Pakistani financial system is sufficiently liquid to support the local debt financing requirements of the Hab River Power project and; (4) existing regulatory constraints inhibit efficient local capital markets operations and must be waived if capital is to be raised. Examples of such regulatory constraints include the method of setting the stock price of an initial offering, limitations placed on converting debt into equity and underwriting restrictions placed in local financial institutions. This engagement has been completed and a draft final, considered as final by the Mission, was submitted in June 1989.

8. Egypt Equity Finance Facility Feasibility Study

The first phase of this multi-phase activity was completed and a draft final report was prepared in June 1989. During the first phase, an FSDP team assisted USAID/Cairo in designing a program to encourage domestic equity investment. The team conducted a survey of Government officials, business leaders and other public and private sector figures to solicit their views and recommendations on the need for and feasibility of establishing an equity financing facility in Egypt.

The FSDP team found that (1) the Government's regulation and subsidization of industry have had an adverse effect on economic activity and competition, (2) the absence of private equity financing in the Egyptian private sector has resulted in the neglect of many investment opportunities in tourism, agricultural processing and small-scale industry and, (3) there is ample liquidity in the Egyptian financial sector to support private equity investment. The team concluded that USAID/Cairo could provide essential support to the equity financing process, assisting with the creation of

a private intermediary institution to link equity financing proposals with Egyptian investors and with the creation of an investment pool to place and mobilize funds. This engagement remains active pending receipt from USAID/Cairo of requests for further assistance.

9. Central America CABEI Strategic Planning

FSDP was asked to assist CABEI with strategic planning and to advise ROCAP on a policy to guide its relations with the Bank. The consultant recommended that CABEI be used as a channel for loans to the private sector. The consultant also noted the important role CABEI could play to support Central America's development, particularly efforts at economic integration. Finally, the consultant recommended that CABEI undergo a significant strategic planning process, identify areas that account for low profitability and reform some elements of the Bank's management. This effort is complete and a final report was submitted in May 1990.

10. Morocco Financial Sector Assessment

USAID/Morocco contracted FSDP to review the characteristics of the Moroccan financial system, evaluate recent changes and proposed reforms and recommend a program of technical assistance for financial sector reform. The team found that, in responding to the 1984 World Bank study of the financial sector, Moroccan authorities have achieved a return to real interest rates, a substantial reduction in the subsidy involved in Treasury borrowing and increased competition between commercial banks and public sector investment banks. Despite these advances, the team found the principal constraints to financial sector development to be insufficient use of market incentives and a high reliance on controls. The financial sector's most notable deficiency was identified as the absence of a secondary debt market for short-term debt instruments. Another constraint was the ineffective functioning of the Stock Exchange.

The team recommended a four-phase approach involving analyses of specific issues, an assessment of training needs and the design and implementation of a training program. This engagement has been completed and the final report was submitted in March 1990. Two follow-on engagements have resulted from the consultants' recommendations, including studies of the secondary debt market and of the stock exchange.

11. Morocco Stock Market Development

At the request of USAID/Rabat, an FSDP team was engaged to assist Morocco in developing the legal, regulatory, fiscal and institutional environment needed for an effectively functioning equity market. The Government of Morocco is interested in strengthening the role of the Stock Exchange and has developed new accounting standards and has proposed amendments to current legislation regarding financial disclosure, taxation of capital gains and dividends and the regulation of the Stock Exchange.

The team found that the Casablanca Stock Exchange is not operating at full capacity and identified privatization as key to the growth and development of the Exchange. The team recommended that government control over operations be transferred to the private sector and that the government limit its role to a regulatory capacity. The team further suggested that the proposed draft laws and regulations be strengthened to more effectively support information disclosure and discourage fraudulent behavior. The consultancy took place during September and October 1990. FSDP submitted the English version of the final report and prepared the French version in May 1991.

12. Washington Newsletter I, FSDP Update

The first issue of the semi-annual newsletter, FSDP Update, was completed and published in November 1989. The newsletter included background information on FSDP goals and activities, reports on A.I.D. projects in Senegal and Indonesia, and offered information about the activities of other donor agencies.

13. Washington Modernization of Regulation and Supervision of LDC Financial Institutions

FSDP prepared a major research study on the modernization of developing country systems of prudential regulation and supervision of financial institutions. Because of the absence of adequate regulatory and supervisory systems, financial sector liberalization can lead to instability. This is a crucial area for financial sector development. The FSDP study defined the basic principles and essential requirements that should govern modernization of developing country systems of prudential regulation and supervision, and highlighted some of the areas best suited for technical assistance.

Areas identified by FSDP for A.I.D. technical assistance include: creation of effective legislative and regulatory frameworks for financial supervision; development of specific legislation that deals with problem and/or insolvent institutions; development of accounting standards and forms for prudential reporting; design of an

off-site examination program; strengthening of the role of external auditors; training of supervisory staff; and establishment of credit risk bureaus. This activity is complete and the final report was submitted in February 1990.

15. Washington PRE/I Training, RFP Analysis

In order to hold a series of training workshops on financial analysis techniques, the Financial Sector Development Project was requested to conduct a proposal solicitation, evaluate the responses, negotiate with the top-ranking firm and prepare a subcontract. This activity is complete.

16. Honduras Bank Strengthening Program

USAID/Honduras has engaged FSDP in a multi-phased effort to strengthen the Honduran banking sector. To this end, FSDP teams have worked closely with the Mission and with the Honduran Bankers' Association, AHIBA. Five discrete activities took place under this multi-phased task. They include:

o **Bank Association Membership Training**

A former commercial banker with extensive Latin American experience was fielded in November 1989 to meet with the commercial banking community and the management of AHIBA in order to assess AHIBA's training needs and recommend a program of assistance. A report outlining AHIBA's basic training requirements was prepared and submitted in final form in March 1990.

o **Bank Association Library and Information Systems**

In December 1989, an FSDP consultant with expertise in Library Science assessed the library holdings of the Central Bank and AHIBA and the needs of the banking community. He recommended a program to expand the Central Bank Library System beyond Tegucigalpa and San Pedro Sula, proposed a Banking Documentation Center and recommended that the Central Bank and AHIBA plan to issue and disseminate banking publications. This study was submitted in March 1990.

o **Bank Association Strategic and Management Planning**

Building on previous technical assistance, USAID/Honduras requested a consultant to assist AHIBA in developing strategic, management and operating plans. The consultant met with AHIBA and USAID officers during August 1990. He reviewed AHIBA's by-laws and assisted the organization in developing a business plan, a

management plan and an operating budget. A draft final report, accepted as final by the Mission, was submitted in September 1990 in both Spanish and English versions.

o **Bank Association Strengthening Proposal**

In December 1990 and January 1991, an FSDP team visited Honduras to work closely with AHIBA, A.I.D. and BCH to prepare the four year Bank Strengthening Project. The project has two main components: Training and Information, supplemented by Technical Assistance and Administration Components. The project has been designed to build local training capabilities, strengthen technical and management skills, facilitate the flow of information in the banking system and provide strategic planning guidance. Keeping in mind the objective of self sufficiency, the project was designed to become financially independent by its fifth year of existence. A draft final report was submitted in mid-March 1991.

o **Stock Exchange Development**

Under this buy-in, FSDP also organized two seminars on Stock Exchange operations, held in December 1990. Both seminars were designed to encourage general support to the private sector in the development of the Honduran Stock Exchange. The first was a full-day event held in San Pedro Sula for 75 leading politicians and businessmen. The second, held in Tegucigalpa at the Superintendency of Banks, was a half-day seminar led by two Bolivian experts on Stock Exchange Operations in Developing Countries.

17. **US, Pakistan, & Chile** **Forging Greater Integration and Internationalization of Financial Markets**

This three-phased research project is designed to develop a policy analysis framework that will be useful to A.I.D. and host country governments in achieving greater integration and internationalization of their financial sectors. The three phases include 1) a literature review, 2) case studies to evaluate developing countries' experiences in gaining access to international capital markets and in attracting foreign investment, and 3) a comprehensive analysis of findings. A literature review was submitted in March 1990 and a final report was submitted in April 1991.

The gradual but sure emergence of the stock market was cited as a positive sign of Chile's economic well-being. Both the privatization process as well as the presence of foreign institutions among financial intermediaries in Santiago also reinforce the impression that the Chilean Stock Market is poised for impressive growth. The Chilean experience has shown that in order for financial liberalization to be effective, it must be followed through completely. Even considering the set-backs that Chile has encountered, the researchers found that a decade and a half of financial

liberalization has been beneficial for the Chilean economy and that many of the omissions of the first round of liberalization (in the late 1970s and early 1980s) have been rectified, creating an environment conducive to economic growth, political stability and social welfare.

In the case of Pakistan, the researchers found the process of financial integration and internationalization to be uneven at best. The country's emerging equity market is weak, and there is no viable long-term bond market. Financial integration with the international market is limited, and is primarily dependent on official bilateral and multilateral sources of foreign funds. Foreign private banks, on the other hand, have been reasonably successful in penetrating the local Pakistani market. The researchers noted that there have been various movements in recent years to strengthen the process of integration and internationalization, including the issuing of licenses for foreign investment and joint ventures.

18. Washington Prefeasibility Study of an A.I.D. Guaranty of Local Currency Bond Issues by Municipal and Housing Authorities

FSDP was sponsored by APRE's Office of Housing to study the feasibility of offering A.I.D. guarantees for local currency municipal bond issues. Due to a decline in multilateral and bilateral aid, municipalities in many developing countries are seeking alternative means of financing, including local currency bond issues. FSDP research concluded that A.I.D. guarantees could help stimulate local bond markets, and would accomplish several A.I.D. policy objectives, including: stimulating capital markets development, reversing capital flight by offering alternatives for investment, encouraging decentralization through the strengthening of local governments, and stimulating administrative and fiscal reform by local governments.

The FSDP report suggested, for example, that bonds could be issued for housing, infrastructure and industrial development. In addition, it was suggested that initial projects be kept straightforward and that local investors assume some of the risk. The report also recommended that A.I.D. technical assistance focus on specific areas, including administrative and fiscal reform of municipal governments. The final report was submitted in February 1989. As a result of this study, case studies have been undertaken in Thailand and Chile.

19. US, Thailand, & The Philippines Private Power Projects and Capital Market Development

Building on knowledge gained through experience with the Hab River Power Project, FSDP has conducted research on the potential for private financing of major power projects. Case studies have been undertaken in the Philippines and in Thailand.

In the case of the Philippines, researchers found that energy demand is estimated to grow by 4.5 percent for the next five years. The power supply shortage, however, represents a real constraint to economic growth. Private enterprise can participate effectively in the formulation, construction, operation and maintenance of infrastructure facilities under private ownership and financing. Despite the limitations of Philippine financial institutions and markets, the researchers cited the potential for raising local currency funds although they also noted the complexity and time consuming nature of the process.

Researchers found that local Thai markets have the capacity to finance individual large projects costing hundreds of millions of dollars. They do not have the capacity to finance all needed investments throughout the economy. Development of the debt market would provide a needed source of long-term financing; the researchers noted that both local and international banks seem eager to help develop a secondary market for debt securities. A draft final report incorporating both case studies was submitted in December 1990.

20. Indonesia Stock Market Regulation and Operation

FSDP has provided on-going assistance to the Government of Indonesia to strengthen stock market supervision, regulation and operations in order to accommodate significantly increased activity on the capital markets. FSDP advisors recommended a new regulatory regime for the stock market, the brokerage industry, underwriters and other supporting professions. The recommendations touched upon a broad range of key issues, including fair play and disclosure requirements in registration statements, codes of practice and conduct, and new accounting rules to ensure accuracy in reporting. FSDP has been working closely with the Mission and the GOI to assist in drafting a capital markets regulatory decree, in making the stock exchange a private body and in reviewing the training needs of the capital market executive agency (Indonesia's SEC).

21. Washington Financial Analysis Training

FSDP contracted Development Associates (DA) to prepare and deliver training workshops to credit officers and small businessmen in USAID host countries. DA was to deliver up to ten five-day workshops over a nine month period in selected countries. A draft training manual was prepared and submitted to AID and a preview workshop was held. There was no further activity requested and the activity ended upon the termination date of the subcontract.

22. Washington The Role of Business Regulation in an Era of Liberalized Financial Markets Seminar

At the request of the Bureau for Asia and the Near East, FSDP sponsored a one-day seminar entitled "The Role of Business Regulation in an Era of Liberalized Financial Markets." Held in Washington, D.C. on February 23, 1990, the seminar briefed representatives of ENE and other A.I.D. Bureaus on the role of properly conceived regulation, particularly with regard to the private provision of public services. The workshop also focused on A.I.D.'s role in providing assistance in regulatory affairs. Financial markets specialists from Price Waterhouse led four sessions on the globalization of financial markets, banking regulation, capital market regulation and utility regulation. A conference report was submitted to AID in February 1990.

23. Washington The Financial Sector in Developing Countries - Issues for the 1990s, Conference

On behalf of the Bureau for Private Enterprise, FSDP organized a two-day conference on key financial sector issues. Participants included A.I.D. representatives, academics, private and public sector figures and financial sector practitioners from A.I.D. countries. Held in Washington, D.C. in March 1990, the conference aimed to exchange information on financial sector development and to explore A.I.D.'s role in this process.

The conference focused around three major themes: the policy framework for financial sector liberalization, the strengthening of financial institutions, and the development of capital markets. Conference chairman, Dr. Malcolm Gillis, emphasized the internationalization and globalization of finance, the importance of a well-trained work force and the instrumental role that accounting standards and financial regulation must play in financial sector development. Dr. Gillis saw a potential role for A.I.D. in training and education, in the provision of financial expertise and in donor coordination. The final version of the Conference Report was submitted to A.I.D. in June 1990.

24. Thailand Financial Sector Strategic Assessment

USAID/Thailand requested an FSDP team to conduct a reconnaissance of the Thai Financial System, with the aim of assisting USAID/Thailand to develop a long-term financial markets strategy. The FSDP team developed a set of preliminary recommendations on areas suited for A.I.D. interventions. These recommended include: expanding the equity market by increasing the number of companies listed on the Thai Securities Exchange, improving the quality of financial information by establishing a Thai Chartered Financial Analysts program, and mobilizing national

savings through the organization of a national savings program. The team advised that its recommendations be supported by detailed research before an actual portfolio of projects is launched. FSDP also recommended that a financial markets conference be organized to explore ways in which Thailand could improve the efficiency of its financial markets and establish itself as a regional financial center. This activity is complete and a final report was submitted in April 1990.

25. Guatemala Central Bank Strengthening

USAID/Guatemala requested assistance from FSDP to assist the Central Bank in modifying instruments and regulations needed for a liberalized financial system. The activity was canceled following changes in Central Bank priorities.

26. Lesotho Financial Intermediaries in Lesotho: Implications for the Agricultural Sector

An FSDP consultant was sponsored by USAID/Lesotho to analyze the structure of the country's economy and financial markets, as part of a multi-disciplinary project that studied agricultural sector development. The consultant focused on constraints caused by the dependence of Lesotho's economy on that of the Republic of South Africa, since this dependence affects the formulation and execution of fiscal and monetary policies.

The consultant recommended a number of measures which Lesotho's monetary authorities could undertake to facilitate the provision of credit for agricultural activities. The recommendations included: introducing graduated payment obligations or tailoring loan repayments to borrowers' capabilities, instituting re-financing arrangements, and establishing tax incentives to encourage lenders to obligate longer-term funds to certain types of agricultural activities. This activity is complete and the final report was submitted in June 1990.

27. Caribbean Feasibility Study for a Guaranty Facility for Section 936 of the CBI Program

The passage of Section 936 of the IRS Code made approximately \$14 billion in earnings of U.S. companies in Puerto Rico available for medium and long-term financing of private sector projects in the Caribbean Basin. Only seven projects have been funded under this program since its inception, however; this number falls far below anticipated levels.

FSDP was contracted by PRE's Investment Office (PRE/I) to identify constraints on the use of 936 funds, to assess the viability of a 50% A.I.D. guarantee program for increasing the flow of funds, and to recommend a workable guarantee structure. The team found that the 50% guarantee proposed by PRE/I's Private Sector Revolving Fund is not attractive to U.S. commercial and investment banks in Puerto Rico since they require a full (100%) guarantee for risks associated with Section 936 loans. The report recommended several approaches that PRE/I should follow if it wishes to pursue the development of a guarantee facility on this basis. These recommendations include full guarantees for projects between \$1 million and \$3 million in size and limited guarantee coverage to projects generating foreign exchange or having access to export earnings in off-shore accounts. This activity is complete and the final report was submitted in June 1990.

28. Washington Programming A.I.D. Financial Markets Activities: Issues and Options for ENE

This FSDP assignment outlined specific activities and programs that A.I.D.'s Asia/Near East/Europe (ENE) Bureau could support to promote financial markets development. The report was designed to stimulate discussion at ENE private sector conferences held in Jordan and Thailand in May 1990; it provided practical interventions that A.I.D. could undertake in the area of financial sector development. Some of the options presented include: the drafting or revision of securities laws and regulations, the development of audit and accounting standards, support for improved bank regulation and supervision and the development of mutual funds and contractual savings institutions (insurance companies and pension plans). This activity is complete and the report submitted in April 1990, was used as the basis for discussion at the May meetings.

29. Washington Newsletter II, FSDP Update

The second issue of FSDP Update was prepared and distributed to A.I.D. Mission and Bureau personnel in July 1990. The newsletter contains articles covering the ENE Seminar, the FSDP Conference, modernization of regulation and supervision of LDC financial institutions, the status of FSDP Research and the IFC Capital Markets Division, as well as updated information about recent FSDP projects.

30. APRE/I Bank Analysis for APRE/I

FSDP has assisted the APRE/Investment Office in evaluating Loan Portfolio Guarantee (LPG) applications. An FSDP consultant has provided qualitative and quantitative analyses of applications by private banks in Africa and Latin America for

the LPG program. The consultant evaluated the asset quality, capital adequacy, profitability, and liquidity of applicant financial institutions in order to assess the credit risk to A.I.D. for including these institutions in the LPG program. The FSDP consultant also reviewed the existing evaluation model, and recommended changes necessary to use the model for evaluation of leasing companies, instead of banking institutions. Project deliverables for this engagement have been submitted directly to APRE/I. Work on this task continues on an as-needed basis.

31. Thailand and Jordan ENE Private Sector Officer Conferences

The FSDP Deputy Director attended Private Sector Officer Conferences held in Thailand and Jordan. The consultant discussed and explained the many ways in which FSDP could provide assistance to USAID Missions in the ENE region in order to foster stronger private and financial sectors in those developing countries. This activity is complete.

32. Washington INTRADOS Financial Markets Seminar (Algeria)

Under FSDP sponsorship, two Algerian central bankers attended an Intradoss Seminar entitled "Building Effective Financial Markets." Attendance at this seminar was important for the Algerian government's current program of reforming the Algerian economy. This activity is complete.

33. Bolivia Privatization Strategy

At the request of USAID/Bolivia, FSDP assisted the Government of Bolivia in defining a privatization strategy including an analysis of potential financing options for privatization. FSDP performance on this task has received the highest praise from the USAID/Bolivia Mission Director and Private Sector Officer. The team held numerous discussions with key Ministers (Finance, Planning, Industry, and Commerce), the Economic Advisor to the President, Congressional leaders, private sector executives and members of the opposition. These meetings served as input for the strategy design, and were an important opportunity to initiate the consensus building process. This project attracted a great deal of media attention in Bolivia and the team's activities were widely and favorably covered by both the print and electronic media.

A final report was submitted in English and Spanish in September 1990. The report includes an outline of the key components of a successful privatization strategy and guidelines for the drafting of a privatization law.

34. Tunisia Venture Capital Feasibility

An FSDP team assessed the feasibility of venture capital and other non-asset based lending mechanisms in Tunisia. The purpose of such mechanisms would be to encourage the start up or expansion of viable private enterprises in Tunisia. The team met with private and public sector leaders to determine whether USAID resources could be used effectively to support the venture capital process in Tunisia. In addition, the team examined ways to promote more Tunisian-American commercial joint ventures. The team concluded that USAID/Tunis should not use its resources to establish a new venture capital facility at this time, but that well-placed assistance to indigenous venture capital efforts could be very effective. This activity is complete, and a final report in English and French was submitted in January 1991.

35. Pakistan Capital Markets Assessment

FSDP fielded a consulting team to Pakistan to conduct a Capital Markets Study in July - August 1990. The FSDP team was to identify those areas for USAID technical assistance over the next several years. The FSDP team recommended, inter alia, the liberalization of the interest rate structure, technical assistance to support the development of a private life insurance industry and promotion of increased competition among financial institutions. Additionally, the FSDP team highlighted a number of activities in which USAID assistance would produce the greatest rewards and benefits in strengthening the capital markets in the near future. This project has been completed, and a final report was submitted in October 1990.

36. Thailand Local Currency Bonds Case Study

As a follow-on to FSDP research on the feasibility of A.I.D. guarantees of local currency bond issues by municipal and housing authorities that was completed in February 1990, an FSDP team recently conducted a case study in Thailand. The objective of this study was to analyze the feasibility of raising long-term local currency debt in Thailand in order to finance public infrastructure and private corporate investment. The team, comprised of Steven Sharpe, a Vice President from Lehman Brothers, and a Housing Finance Specialist, studied local currency bonds and other financial instruments issued in the Thai capital market for the purpose of infrastructure, housing and corporate investment. The draft final report was prepared and submitted in August 1990. It concluded that with the appropriate policy, legal and regulatory changes, a medium- to long-term debt market could be developed in Thailand over the next three to five years and that the opportunity exists to utilize A.I.D. local currency guarantees as an instrument to support the mobilization and use of local currency borrowing for development.

37. Thailand Promoting US-Thai Investment USIS Conference

As part of an effort to forge greater linkages between the U.S. and Thai business communities, an FSDP consultant participated in the USIS conference "Financial Globalization and Thai-U.S. Investment Relations." In addition, the consultant met with business leaders in Bangkok and assisted USAID in developing a strategy to strengthen ties with the private sector.

One of the most relevant issues raised at the USIS conference was access to the Thai financial market by foreign firms. The consultant noted that the absence of a Thai-U.S. tax treaty is a serious handicap for improved private sector ties. Although there were many reservations expressed about opening Thai markets to foreign firms, there was enthusiasm over a USAID effort in the area of legal and regulatory reform. A draft final report was submitted in August 1990.

38. Uganda Stock Exchange Development Feasibility

The Financial Sector Development Project was contracted to assist with the development of the Kampala Stock Exchange. The private Kampala Stock Exchange has recently been established by a local group which includes the Governor of the Central Bank, and this initiative has been approved by the President of Uganda. The FSDP consultant identified areas of possible assistance that USAID/Kampala could provide to promote the stock exchange. The consultant recommended that primary emphasis should be on securities industry education adapted to local needs and conditions. A draft final was submitted in September 1990.

39. APRE/I Eastern Europe Financial Markets Studies

FSDP consultants have prepared two research studies regarding financial markets and institutions in Eastern Europe. In both cases, the research was conducted in Washington and the methodology included extensive telephone interviews within the U.S., to the U.K. and to Western and Eastern Europe.

The report, Eastern Europe Financial Sector Development Study, provides a descriptive list of bilateral, regional and multilateral donor agency activities in Eastern Europe. The report also includes reviews of financial sector support programs of the World Bank, IFC, IMF, European Economic Community, the British Know How Fund, as well as several German financial institutions.

This report accompanies another, entitled Eastern Europe Financial Markets, which broadly examined the state of financial sectors in Poland, Hungary and Czechoslovakia. This activity is complete and final reports have been submitted for both engagements.

40. Nicaragua Financial Sector Reform

A four-member consulting team was fielded to Managua to devise a strategic plan for Nicaraguan financial sector reform. The team met with Nicaraguan ministerial and Central Bank officials, international financial institution advisors, high level officials from the four remaining commercial banks in Nicaragua and private sector representatives. In addition, the team met with members of the Nicaraguan banking community residing in Miami to assess the community's willingness to return to Nicaragua. The team found that among the problems that need to be addressed, the most pressing are: macroeconomic stabilization, assistance to the Central Bank in building its accounting and auditing capabilities, restructuring of the financial regulatory framework, and allowance for the formation of non-bank intermediaries. The team acknowledged that additional technical assistance would be needed to resolve the aforementioned problems. Upon its return to Washington, the team met with officials at AID/Washington to discuss the possibility of financial sector reform. PRE, LAC and State Department officials attended the Washington debriefing which concluded with a question/answer session. A final report on this project was submitted in December 1990.

41. Bolivia Privatization Seminars and Conference

FSDP assisted USAID/Bolivia and the Bolivian private sector in planning, organizing and managing a seminar and a conference on the privatization process. Both events were key components of Bolivia's privatization strategy and aim to increase public support for the initiative.

The seminar took place in October 1990. FSDP organized a closed-door meeting to work at the technical level with senior government officials on the implementation of privatization program. The seminar was chaired by the Minister of Planning, and included the participation of the Mayor of La Paz, the President of the Chamber of Deputies in the Senate, the President of the Economic Commission in the Senate, and a team of Price Waterhouse privatization advisors. Presentations were made by Maria Julia Alsogaray, an Argentine senator responsible for telephone system privatization in Argentina, and Ellis Juan, Vice Minister of the Investment Fund responsible for implementing privatization in Venezuela. The discussion at this seminar resulted in consensus among the Bolivian leadership on how to proceed with privatization and culminated with a briefing to the President of Bolivia.

A privatization conference, aimed for a much wider audience, took place November 19, 1990. The conference, entitled "Privatization and Economic Reactivation," was designed to increase public awareness of the benefits of privatization to economic growth, and to build public support for the process. Approximately 350 participants attended; presentations were made by an international group of experts, many from Latin America, with first-hand experience in the privatization process.

42. Chile Local Currency Bonds Case Study

An FSDP team performed a pre-feasibility study of A.I.D.-guaranteed local currency Chilean bond issues. The team was very encouraged by the prospects of A.I.D. participation in the development of a Chilean bond market. The consultants noted a large and rapidly growing pool of long-term domestic savings in the Chilean financial markets. The potential for successful development is even further enhanced by the balanced legal and regulatory framework. The team noted that a "culture" of responsible financial and economic management has been successfully implanted in Chile, including low and stable inflation rates, high levels of growth and growing levels of both domestic and foreign investment. The team concluded that the experience in Chile could provide the model for other countries where A.I.D. is assisting in developing financial markets. A draft final report was submitted to A.I.D. in October 1990.

43. Bolivia Financial Sector Assessment

At the request of USAID/Bolivia, FSDP performed a financial sector assessment. A senior level, multi-disciplinary and international team examined the Bolivian financial system and the financing needs of the private productive sectors. The assessment identified and analyzed constraints and proposed interventions to rectify them. The team's principal finding was that after four years of sound economic policy the financial system is still fragile but is gaining strength. The banking system remains weak and as yet is unable to play a strong role in development finance. Key recommendations in this area are to: "modernize" the banking law; strengthen bank regulation and supervision; strengthen the Central Bank's capacity to manage the financial system properly; establish a restructuring fund to aid regulators to deal with crucial issues of bank restructuring; and establish a small saver guaranty fund. This activity is complete and English and Spanish final reports have been submitted to the Mission.

44. ENE Regional Financial Markets

FSDP has prepared a practical guidebook to assist A.I.D. Field Missions and ENE Bureau staff in programming and project decisions in the financial market area. The "Operational Guide on Financial Markets for Asia and the Near East" is designed to help underscore the importance of financial markets within A.I.D. and to explain A.I.D. policy. Core sections of the guide will address programming AID activities in the following areas: Banking, Accounting/ Auditing Systems, Capital Markets Law and Regulation, Stock Exchange Development, Open Market Operations, Economics, Financial Markets/Investment Banking, Contractual Savings Plans, Venture Capital and Mutual Funds. The draft final report, incorporating chapters from A.I.D., Ernst and Young and Nathan Associates, was prepared and sent to the ENE Bureau for review and comment in June, 1991.

45. Morocco Secondary Debt Market

At the request of USAID/Rabat, an FSDP team was engaged to assist Morocco in assessing the feasibility of developing a secondary debt market. The team was to analyze the conditions under which a secondary debt market could successfully function, and develop an action plan for its creation.

The team found the financial system to be overly reliant on the Central Bank and insufficiently driven by market forces. For example, they found that when commercial banks need liquidity, they tend to borrow primarily from the Central Bank and, to a lesser extent, in the interbank market. The development of a secondary market in short-term debt instruments would allow banks to adjust their liquidity positions without borrowing from the Central Bank. In addition, it would provide a vehicle for the monetary authorities to influence both the banks' willingness to extend credit and the general structure of interest rates through the use of open market operations. The creation of a secondary market would further assist in establishing a market-based reference rate against which all other rates could be measured.

As an initial step, the team recommended that a secondary market for short-term Treasury bills of 3, 6, and 12 months maturity be created in 1991. Trading in other products such as commercial paper and bankers acceptances, might be considered at a later phase of market development. A final report is under preparation.

46. Tunisia Financial Sector Assessment

At the request of USAID/Tunis, an FSDP team conducted an assessment of the Tunisian financial sector in November 1990. The team examined the structure and

characteristics of financial institutions, instruments and the regulatory environment. The team found that although the Government of Tunisia has made substantial progress in the policy framework for its financial markets reform program, important constraints to liberalization remain, including the dominant role of the state in the Tunisian financial sector. The team made recommendations to guide USAID/Tunis in developing a strategy for financial sector assistance. Recommendations were made on policy issues, technical assistance and training programs to strengthen the banking sector, and ways to further develop capital markets. The final report was submitted in June 1991.

47. Cote D'Ivoire La Financiere Portfolio Analysis I

AFR/MDI contracted FSDP to perform a financial valuation of La Financiere Côte d'Ivoire and all affiliated companies, in order to facilitate the pricing of future share certificates. FSDP submitted a draft report in December 1990. This first phase of the project assembled and made adjustments to unaudited financial statements as of September 30, 1989; a valuation incorporating statements through September 30, 1990 began in early May 1991.

48. Indonesia Private Provision of Public Services

FSDP worked with USAID/Jakarta on the second phase of its program to provide assistance to the Government of Indonesia (GOI) in developing policies and guidelines for the private financing of public services. The final report, submitted in March 1991, suggests that the organization and implementation of a program which provides public services through private investment could contribute to greater economic growth in Indonesia. The report provides (GOI) with a basic policy framework designed to underpin GOI's efforts in implementing a program to provide public services by means of private sector investment.

49. Egypt Government Bond Market Development

In December 1990, an FSDP team examined the market potential of, and provided policy recommendations for, the development of primary and secondary markets for government securities in Egypt. This engagement took place in the context of a larger and more comprehensive program of policy reform whereby the Central Bank of Egypt, as fiscal agent for the government, was preparing to introduce an auction market for the issue of short-term government securities. The FSDP team explained that the introduction of an auction mechanism for varying amounts of bill issues would entail a profound change in the way monetary policy is conducted in Egypt, but

concluded that such a process would be beneficial and is long overdue. FSDP currently awaits comments on the draft final submitted in January 1991, and is conferring with the mission for a follow-on trip. As of January 3, 1991, the Central Bank has successfully proceeded with auctions of Treasury Bills.

50. Philippines Private Financing of Public Services

Technical assistance was provided to USAID/Manila in November 1990 to assess the potential for private financing of large-scale infrastructure projects. An FSDP consultant worked with the Philippines Department of Finance to hold preliminary discussions on the options for and constraints to privately financed large-scale infrastructure projects. The consultant also assisted the Department of Finance in determining and refining its long-term advisory needs. A short report discussing the results of the engagement was submitted in December of 1990.

51. Nicaragua Technical Assistance Program

In December 1990, FSDP provided technical assistance to USAID/Managua as a follow-on to the FSDP financial sector assessment conducted in July 1990. This engagement examined in greater detail technical assistance requirements to establish an appropriate regulatory and supervisory framework, to establish new, private sector financiers, and to restructure state-owned banks. FSDP is following up with the mission regarding possible support.

52. Cote D'Ivoire Technical Support

FSDP organized a January 1991, visit to Washington, D.C. and European capitals by Mr. Diagne Loum, an Ivoirian business leader. Mr. Loum met with A.I.D. in Washington, the Industrial Development Center in Brussels, the Netherlands Development Finance Company in Amsterdam, and the Commonwealth Development Corporation and the West Africa Committee in London. While in Washington, Mr. Loum and Price Waterhouse discussed possible future technical assistance to La Financiere Cote d' Ivoire with AFR/MDI.

53. Washington Financial Leadership Conference

FSDP was requested to prepare a three-day conference to explore several important issues related to development finance. These issues include the implication of innovation and emerging trends in international financial markets for development finance; the implications of these trends for A.I.D.'s strategic policy and

programmatic agenda; and, potential USAID operational responses in areas such as staff organization and project design. The conference audience will consist of A.I.D. private sector officers, as well as mission and other bureau representatives. The conference is scheduled for August 1991.

54. Indonesia Develop Capital Market Implementing Rules & Regulations

FSDP continues to provide assistance to USAID/Indonesia and the Government of Indonesia in capital market regulation and operations. Activities include assisting BAPEPAM (Indonesia's securities regulatory agency) in the rule-making process, particularly in accounting related matters; advising on stock exchange operations including trading, clearing and settlement proceedings; and designing training programs for BAPEPAM staff.

55. Sri Lanka Credit Subsidies Appraisal

FSDP was asked by USAID/Sri Lanka to conduct a preliminary appraisal of the extent and incidence of interest rate and other credit subsidies in Sri Lankan financial markets. The study aims to identify the sources of these subsidies; assess the magnitude of the Central Bank's refinancing schemes, other "open" interest rate subsidies, and non-interest rate subsidies; and compare the incidence of costs and benefits of credit subsidies. The results of this study will be used in the design of a planned project to support the liberalization of interest rate structures. The two-person FSDP team performed its field work from March to April 1991. The FSDP team, which visited Sri Lanka this quarter, submitted a preliminary draft report in the field. The final report is in preparation.

56. Cote D'Ivoire La Financiere Financial Valuation II

In May 1991, PW consultants Kami Rahbani and Ali Zavar continued working with AFR/MDI on defining the requirements pertaining to the second phase of the financial review and valuation of La Financiere Cote D'Ivoire. A follow-on to prior assistance, this engagement appraises financial statements through September 1990. The field work for this assignment was conducted by Ali Zavar from May to July 1991.

57. CEA Regional Financial Markets

A group of international donors, led by the French Ministry of Cooperation and Development and including the World Bank and USAID, has inaugurated an effort to promote financial market development in the West African regional zone (FCFA).

The first step in the process is a feasibility study regarding the establishment of a regional financial market in West Africa. FSDP was requested by USAID to provide the project team with the legal expertise required to perform an assessment of the laws, regulations, judicial system and operating and infrastructure capabilities of financial markets in the region. An attorney with extensive international capital markets experience is evaluating the practicality of possible alternatives and recommendations for a regional financial market within the context of the current legal and regulatory environment. Initial donor meetings took place in April 1991, and will continue over the months ahead.

58. Central America Regional Financial Workshops

FSDP worked with AIRE/EM on conceptualizing a financial markets workshop targeted to Central America. The proposed seminar would bring together key decision-makers from the region to discuss trends in global and Central American financial markets and their implications for the region. This workshop would be the first in a series of regional seminars developed by FSDP, intended to represent a new FSDP emphasis on training activities.

59. Washington, DC Newsletter III, FSDP Update

During this quarter, FSDP distributed its third Newsletter, FSDP Update. Featuring an article highlighting the importance of stock market development to the transformation of Eastern European economies, the Newsletter also covers Capital Market Reform in Indonesia, and the linkage between Privatization and Capital Market Development in Bolivia. Brief descriptions of select FSDP activities in Uganda, Nicaragua, Honduras, Egypt and Tunisia are also found in the Spring 1991 issue of FSDP Update.

60. Poland Warsaw Stock Exchange

FSDP is working on a project co-sponsored by the U.S. Department of the Treasury and A.I.D. During this quarter, an FSDP consultant began working closely with the Warsaw Stock Exchange to assess needs and recommend the design of the computerization of clearance and settlement mechanisms for the exchange. As part of the assignment, the consultant is assessing hardware and software requirement definitions for projected transactions, based on potential growth of listed companies and share transactions. A draft final report is under preparation.

61. Portugal Housing Finance Study

This quarter a four-person FSDP team traveled to Portugal to review the structure of housing finance within the context of rapidly evolving financial markets and to assess strategic alternatives for the Instituto Nacional de Habitação (INH). The team concentrated on the potential for a secondary mortgage market in Portugal, and the suitability of the INH to issue mortgage bonds. A draft final report of the team's findings was prepared and submitted in June 1991. Also in June, the team leader returned to Lisbon to present the team's main findings and conclusions.

62. Chile Popular Capitalism and Privatization: A Case Study

An FSDP researcher began the case study this quarter which will be completed this summer. The subject of the study is the 1985 privatization of Chile's two largest banks (Banco de Chile and the Banco de Santiago). The privatization was accomplished with the aid of a new "popular capitalism law" which gave preferential loans to small investors in these banks. It is believed that this program contributed to the successful offer of 350 million shares (US\$ 9 million) of these banks on the local market.

The objective of the case study is to bring together all the facts relating to the offer and the role of the popular capitalism program. Also, the case will explore the issues that were considered at the time, how those issues were resolved, and how important these issues actually turned out in light of some five years of experience. In addition, the case will explore the access to these loans made by qualifying citizens, their experience with them, default rates, profitability of the shares to the investor, redemption rates and other information which would bear on the replicability of this method in other countries.

63. Bolivia Participation in Privatization Roundtable in Cochabamba

In early June 1991, an FSDP team member was invited to participate in a regional meeting on privatization sponsored by the Federation of Private Entrepreneurs of Cochabamba. The objective of the meeting was to assess the impact of the privatization process on the regional economy of Cochabamba and to formulate a program which local policy-makers and businessmen can use to further the privatization process.

64. Bolivia Review of the Supreme Decree on Privatization and the Ministry of Planning Draft Proposal

In May 1991, FSDP reviewed and gave a detailed analysis of a Supreme Decree that formally set out the Government of Bolivia's policy on privatization and established implementing rules for privatization. The Supreme Decree, approved in June 1991, contained a number of the FSDP team's recommendations.

The Ministry of Planning Draft Proposal sets forth more detailed guidelines for the implementation of privatization. Based on FSDP experience in the mechanics of privatization in other countries and the recent experience of Bolivia, after reviewing the draft proposal on privatization, the team made recommendations that are currently under consideration by the Ministry of Planning.

65. Bolivia Strategic Diagnostic for the Private Provision of Municipal Services, Sucre

As a first step in the process of reducing public expenditures and improving the efficiency and quality of municipal services, the city of Sucre, Bolivia, requested technical assistance from USAID/Bolivia to identify the services most appropriate for privatization and to define the next steps needed to be taken. In May 1991, a two-person FSDP team conducted a preliminary diagnostic of services appropriate for privatization. A draft final report of the team's findings and analysis is under preparation.