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THE FINANCIAL SECTOR IN DEVELOPING COUNTRIES: ISSUES FOR THE 1990s

Final Report

June, 1990

Report on the Proceedings

1801 K Street, N.W.
Washington, DC 20006

Price Waterhouse

June 8, 1990

Ms. Sandra Frydman
Bureau for Private Enterprise
Agency for International Development

Dear Ms. Frydman:

Re: Financial Sector Development Project
Contract No. PDC-2206-z-00-8191-00
Conference: "The Financial Sector in Developing Countries: Issues for the 1990s

Attached please find 10 copies of our Final Report on the proceedings of the FSDP conference, "The Financial Sector in Developing Countries: Issues for the 1990s," as prepared by Price Waterhouse, Prime Contractor under FSDP.

It has been a pleasure to work with you on this activity. We look forward to continuing to work with you on other projects in the future.

Sincerely,

J. Richard Breen, BF

Mr. J. Richard Breen
Director, FSDP

Attachments

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I. SUMMARY

"The Financial Sector in Developing Countries: Issues For The 1990s", a two-day conference, was organized by the Private Enterprise Bureau (PRE) of the U.S. Agency for International Development. Its objective was to bring together A.I.D. representatives, academics, private and public sector figures, and financial sector practitioners from A.I.D. countries to share information about financial sector development and to explore A.I.D.'s role in that process. The conference was held in Washington, D.C. on March 14-15. In her opening remarks AID/PRE Assistant Administrator Neal Peden spoke of the PRE mission within A.I.D.: to facilitate self-sustaining economic growth, encourage entrepreneurs, boost capital flows, and encourage the creation of efficient capital markets in developing countries.

Conference chairman Malcolm Gillis of Duke University called the late 1960s "the high water mark of shallow finance," referring to government domination of development through policies such as interest rate ceilings and subsidized and directed credit. Those policies have failed, and economists and policy makers have now returned to markets and competition. As policies move toward freer markets, A.I.D. must remember three key points: that tax policies are as important as financial policies in promotion of financial sectors; that a good financial system will offer ways to pool and diversify risk; and that reliable accounting and disclosure systems are the bedrock of a solid financial sector.

In the opening session of the conference, Phil Wellons of Harvard University reviewed the experiences of several liberalizing countries. He contrasted Chilean financial reform, which restructured the financial sector while limiting capital inflows, with the Indonesian program, which carried out financial reform without limits on capital. This demonstrates there is no single recipe for financial reform, and that a country's macroeconomic situation and social context are key factors in designing a reform strategy. Wellons also predicted an "intellectual counterattack" on the West's free-market model of development. The overwhelming success of the Japanese model, in which the Japanese have successfully reduced risk and the cost of capital and channeled investment into certain sectors, could lead to a new school of thought on government involvement in development.

In the second morning session, Gus Rimpel of Price Waterhouse reported on the techniques of financial sector assessment and on the conclusions and action plans which follow from such assessments. Using a recently-completed evaluation of Thailand's financial sector, he demonstrated how assessments are designed to identify the areas with the greatest potential for A.I.D. involvement in financial sector development.

Robert Bench of Price Waterhouse spoke on the regulatory and supervisory framework for strengthening financial institutions. He highlighted five trends which have revolutionized the financial world and the world of regulation and supervision: liberalization; internationalization; institutionalization; innovation; and technology. These changes have transformed the financial environment, and cannot be ignored as developing countries seek to modernize their financial sectors.

In the last session of day one Diane McNaughton of the World Bank explained how banks are restructured. She emphasized the political role the World Bank must often play in convincing governments of the need for restructuring and financial reform. McNaughton said inadequate bank regulation and supervision invariably lead to financial sector problems, and that countries must have a pool of qualified people if bank restructuring is to be effective.

In the first session of day two, John Schroy and John Evans of Price Waterhouse discussed the role of stock markets in mobilizing domestic risk capital, and how developing countries can build stock markets. Schroy pointed to three prerequisites for stock market development: affluent investors; competitive and attractive investment opportunities; and a corps of aggressive and active brokers. Evans emphasized that governments must be committed to free markets for a stock exchange to flourish. He also stressed the fundamental importance of financial disclosure, and the key role the financial markets can play in regulating themselves.

In the morning's second program Antoine van Agtmael of Emerging Markets Investment Corp. examined the potential of developing country stock markets, and the link between those markets and overall development. While acknowledging the risks inherent in investing in developing countries, van Agtmael argued that international portfolio investment is an enormous source of capital, and that stock markets in many developing countries can and do serve to channel funds into the developing world.

In the final session of the conference, three scholars discussed recent trends in financial sector applied research. Yoon Park of the Financial Markets International Research Institute (FMIRI) explored new international financial instruments and their relevance for developing countries. Ted Barnhill of FMIRI discussed private power financing and its links to capital market development. Charles Feigenoff of Intrados/International Management Group spoke on the potential benefits of U.S. Government-backed local currency bond issues.

Malcolm Gillis wrapped up the conference by emphasizing recurrent themes: the internationalization and globalization of finance; the importance of a well-trained work force; the key roles which accounting standards and financial regulation must play; and the need for patience. He highlighted the potential for A.I.D. involvement in training and education, in providing financial expertise, and in "arranging marriages" between other international donors. "A.I.D. should be open to innovation, but should at the same time be willing to return to 'the old ways' if they work best," Gillis said.

II. PROCEEDINGS

Morning Session

Opening Remarks

In her opening remarks AID/PRE Assistant Administrator Neal Peden spoke of the PRE mission within A.I.D.: to facilitate self-sustaining economic growth, encourage entrepreneurs, boost capital flows, and encourage the creation of efficient capital markets in developing countries. The FSDP Conference would focus on the banking sector, financial markets, policy issues, and applied research.

Introduction

In his introductory remarks, conference chairman Malcolm Gillis of Duke University called the late 1960s "the high water mark of shallow finance," referring to government domination of development through interest rate ceilings and subsidized and directed credit. During this era of financial repression and arrested growth, few economists took markets and financial policy seriously; little attention was paid to how markets were to gain access to savings, for example. But by 1990 this has changed: development economists have abandoned shallow finance, and are looking to markets again.

But even markets are not a quick fix. Sudden and drastic financial reform cannot survive without complementary tax and foreign exchange reforms. Great caution should be used before adopting indexation according to the Brazilian model, once viewed as an avenue to high growth with tolerable inflation. Credit must be evaluated not simply in terms of availability, but also in terms of cost: the cost of the interest rate, time, the cost of delays, and even the cost of bribes.

As A.I.D. becomes more involved in financial sector issues, it should bear in mind several important points. Firstly, that it is not simply financial policies which have an impact on financial reform. Taxes, particularly tax treatment of interest and dividends, are crucial. Interest payments are generally deductible for tax purposes, while dividends are not; this creates a natural bias toward debt over equity financing among businesses. Attention should also be paid to the role of insurance companies and pension funds as sources of capital, and to the impact that ad valorem taxes on insurance may have on the availability of funds from that source. Secondly, there is the role of risk. Risk is a fundamental element of any financial transaction, and a smoothly-functioning financial system will offer ways to pool and diversify risk. Thirdly, there is a desperate need for reforms in accounting systems and disclosure rules. The existing accounting and disclosure systems in most LDCs are suited for the 1920s, and must be updated. Above all, there must be honest financial disclosure.

Policy Framework for Liberalization

In the morning's first presentation, entitled "Policy Framework for Liberalization of Financial Sectors in Developing Countries," Phil Wellons of Harvard University spoke of the greater attention given to the role of financial institutions. This trend began in the late 1970s, when Federal Reserve chairman Paul Volcker pushed interest rates sharply upward to counter the fall of the U.S. dollar. This jump in interest rates and its echoes around the world led to the major worldwide recession of 1981-82, the Latin American debt crisis, and hundreds of bankruptcies. It also revealed major foreign exchange misalignments. It was at this point that economists and policy makers began to pay much more attention to financial institutions and their role in development.

A key point to remember about any financial system is its role as a disciplinarian. Managers must invest wisely in order to be able to fulfill the financial obligations of their firms. Those who do not do so will not survive. In order to explore this role, and the ways in which corporations and national governments affect one another and the world financial system, Wellons' group at Harvard is conducting an in-depth study of money markets in Asia. The study evaluates money markets in Japan, South Korea, Hong Kong, Singapore, the Philippines, and Malaysia, and analyzes their role in managing the money supply, providing liquidity, and providing a reference rate for setting other rates.

The study indicates the emergence of a "Japanese model" of development, one which may soon come to challenge traditional Western wisdom about the efficacy of fully competitive financial markets. In the post-WWII period the Japanese have fashioned a government-guided system which has lowered the cost of capital, reduced risk, and channeled investment into certain export-oriented sectors of the Japanese economy. The great success of Japan and other East Asian economies could lead to an "intellectual counterattack" on market-oriented, Western-style development by defenders of the Japanese model.

The question for LDCs thus becomes one of degree: should their governments use financial markets to promote development, or should they allow more competition and let the market dictate the course of development? Wellons feels that the Japanese method of governmental guidance may well be appropriate at the earlier stages of development, but that the competition and risk of the

Western model are increasingly important as a developing economy matures.

An effective financial system has many functions: to provide a safe place and form to hold savings at low cost; to transfer control of resources from savers to investors at low transactions costs; to diversify investment among a wide variety of users; to match savers and investors with similar risk preferences; and to make investors use resources efficiently to meet obligations and use new funds. In addition, the system will reward capable managers, provide an efficient payments system, and reduce the financial system's vulnerability to panic, crisis, or collapse.

There are a number of policies which affect financial markets and which must be addressed as reform is undertaken. Several broad rules of thumb are to allow interest rates and the foreign exchange rate to float, and to reduce the government's direct role in the economy. The latter suggestion, however, does not imply complete government disengagement from the economy: governments should play an indirect role in financial markets through regulation and supervision. In addition, governments should coordinate their financial policies with policies in areas such as taxation, foreign exchange, monetary policy, and the legal system.

A sturdy legal infrastructure is a key building block for financial sector reform. Laws should be clear and enforceable, and the legal establishment should develop an understanding of business and economics. It is not a good idea to export the American legal system to developing countries, but it would be wise to export American attention to the legal infrastructure.

To illustrate the opposing arguments about the "sequencing" of financial reforms, Wellons reviewed the experiences of several liberalizing countries. He contrasted Chilean financial reform, which liberalized the financial sector but kept controls over the capital account, with the Indonesian program, which carried out financial reform with a relatively open capital account. This demonstrates there is no single recipe for financial reform, and that a country's macroeconomic situation and social context are key factors in designing a reform strategy. Three dimensions of financial reform need to be addressed: whether reform be partial or complete; whether capital inflows be permitted; and whether the reform be economy-wide or limited to certain sectors.

It takes a long time to reform a financial sector; Chile began in 1973, and the United States began in 1968, and the reform of the economies of Eastern Europe could take decades. The process takes place through trial and error, and is invariably very political. It is usually quite difficult to coordinate microeconomic and macroeconomic policies, but the effort should be made.

In his comments on Wellons' talk, Millard Long of the World Bank said the Bank used to simply channel funds through development banks, paying little attention to the financial institutions themselves. But after the 1981-82 crisis the World Bank discovered how many institutions were insolvent. There was a widespread acknowledgement that the flow of development funds into LDCs from abroad would decline, and that greater resources would have to be generated domestically. This in turn led to a greater focus on the private sector, and particularly on the financial sector in developing countries.

Agreeing with Wellons, Long said that less direct government involvement in developing economies does not imply deregulation, but rather "re-regulation." Prudential regulation must accompany the development of financial sectors; at present it is practically nonexistent in developing countries. This is an area in which A.I.D. and the World Bank could contribute.

In general, liberalization of developing country financial sectors must begin with restructuring. Institutions need to be made solvent; they cannot continue allocating credit to the weakest firms, which are often debt-ridden state enterprises. If banks are forced to lend to insolvent firms, the banks themselves inevitably become insolvent. The link between the financial and the real sector is a crucial one, but it must be a sound one.

As to the sequence of financial sector reforms, it depends on the economy. In general, the order in which reforms are adopted becomes increasingly important the more highly distorted the economy. There is often a natural sequence of reform, dictated by macroeconomic circumstances.

The current situation in Eastern Europe will provide a laboratory for sequencing and financial reform. There is general agreement among policy makers as to the diagnosis of the problem and the goals of reform, but there is little agreement as to tactics. There is no precedent for financial sector reform on such a huge scale. For example, it is commendable that Poland wants to privatize 7,000 state-owned firms, but where will it find managers? Questions like these will make liberalization even more challenging.

In general, A.I.D. and other donor agencies need to set priorities for reform; everything cannot be done at once. Interest rates must be allowed to rise, and close attention should be paid to bank regulation and supervision. Legal, accounting, and regulatory systems need to be established. Finally, there should be an overall vision of where the financial system is headed, and what role the various institutions will play within that system.

Financial Sector Strategic Assessment Techniques

In the second morning session, Auguste Rimpel of Price Waterhouse reported on the techniques of financial sector assessment and on the conclusions and actions plans which follow from such assessments. Using a recently-completed evaluation of Thailand's financial sector, he demonstrated how assessments are designed to identify the areas with the greatest potential for A.I.D. involvement in financial sector development. In addition, an assessment should characterize a country's stage of development, identify financial sector needs or weaknesses, determine the priorities of the host country government and private sector, and define action programs for A.I.D. interventions.

Depending upon the nature of the assignment, the specialists needed for a financial sector assessment could include a strategic planner; economist; capital markets specialist; banking specialist; a legal/regulatory specialist, or other personnel. These individuals conduct a four-part strategic plan: first, they assess the financial sector environment; second, they assess existing efforts and programs; third, they identify gaps and key needs, the requisite changes needed to meet those needs, and A.I.D.'s capacity to meet those needs; and fourth, they develop a strategy.

A comprehensive strategy will evaluate seven distinct aspects of the financial environment: macroeconomic policy; structure of the financial sector; economic and financial indicators; the legal and regulatory framework; integration with world markets; cultural and socio/political factors; and existing A.I.D. and other donor programs.

An analysis of macroeconomic policy will look at interest rates, the money supply, government spending, external debt, exchange rates, the allocation of credit, and foreign trade. Several key issues are the liberalization program already in place; the relative incentives of debt versus equity; and foreign participation in the economy. Evaluation of the structure of the financial sector focusses on items such as competition among institutions, the diversity of financial instruments, and the profitability and efficiency of the sector. In addition, consultants evaluate the capabilities of management, staff, and information systems, and explore the activities of the securities market and the informal markets, if they exist.

Key financial indicators include the domestic savings rate, the demand for capital, capital flows, and the depth of financial markets. Issues include the quality of information, the resilience of financial markets, and the efficiency of capital allocation. Assessment of the legal and regulatory framework focusses on the business code, securities laws, fiscal incentives, supervision and examination, and regulatory limits and controls. Two key issues are capital adequacy and the sufficiency of the commercial code and securities laws.

The fifth area evaluated, integration with world markets, looks at foreign direct investment, foreign credit flows, portfolio investment, cross listings, and international bond issues. Important issues are the openness of the financial sector to foreign capital flows, the regional role the country plays, and the country's ability to raise capital in international markets. Cultural and socio/political factors analyzed might include dominant families, dominant ethnic groups, saving habits, and general attitudes toward speculation. Key issues are the concentration of key sectors, political roadblocks to reform, and cultural receptivity to change.

Finally, in assessing existing A.I.D. and other donor programs, consultants evaluate A.I.D. and IBRD activities, and the roles played by regional development banks, bilateral assistance programs, and foreign private sector contracts. Key points to explore would be potential synergies with other institutions, developing a niche for A.I.D., and leveraging A.I.D. resources.

Among the many lessons learned in performing strategic financial assessments in the developing world, four stand out. The assessment team must: maintain an open dialogue with the USAID mission, avoid getting bogged down in detail, gauge the interest of the public and private sectors, and check all information carefully. These rules of thumb and the system outlined above will generate credible and useful financial sector strategic assessments.

Regulatory and Supervisory Framework

In the first afternoon session, Robert Bench of Price Waterhouse discussed the regulatory and supervisory framework for strengthening financial institutions, and how those systems must be strengthened to meet the challenges imposed by a rapidly changing and deregulated financial services industry.

The past 20 years have seen dramatic and even traumatic changes in world financial markets, changes which have affected both the developed and the developing worlds. There have been five key trends: liberalization; internationalization; institutionalization; innovation; and computerization. These developments have undone in 20 years the business regulation which began with the Great Depression.

The first trend, liberalization, is illustrated by the gradual elimination of foreign exchange controls, interest rate ceilings, and credit allocation controls in much of the world. In addition, a financial institution's role was much more clearly defined before: commercial banks, mortgage banks, brokers, underwriters, and savings and loans were distinct entities, with few overlapping functions. After the Second World War the U.S. Government sought to channel and control domestic capital flows, and international financial policy was 'residual,' mainly through trade policy.

But gradual liberalization over the last two decades has led to greatly increased capital flows across borders. This trend toward internationalization of financial markets has its roots in several phenomena: the explosion of huge petrodollar surpluses in the wake of the oil shocks of the 1970s; the emergence of the Eurodollar market to absorb and redistribute the petrodollars; the expansion of large banks into international markets as they followed their clients around the world; and the need to capture capital flows for investment in developed countries and the developing world.

The third trend, institutionalization, is linked to the growth of savings. As gross savings have grown around the world, savings institutions such as pension funds, insurance companies, and huge banks have come to dominate financial markets. Competing under more liberal rules, these powerful organizations have had to become more competitive, leading to the fourth trend, innovation. Financial institutions have had to innovate to compete: they take aggressive positions, develop sophisticated products, and seek to grow at every opportunity. To succeed, they must innovate aggressively and grow.

Finally, there has been the communications revolution. Telecom technology has revolutionized the financial environment, obliterating old concepts of transaction time. There is now a 24 hour, global financial market, using computers, satellites, and instant telecommunications. The result has been an enormous growth in the volume of financial transactions.

There are many more options for the investor and borrower today: one can use credit cards around the world, invest in countries as diverse as West Germany and Malaysia through country funds, and get reports of the day's trading in Tokyo on the local evening news. The world financial system has become truly globalized.

Developing countries can take advantage of the new global financial interdependence, or they can be left out. Countries such as Hong Kong, Malaysia, and Indonesia have sought to "marry" themselves to the international financial system, and are able to reap the benefits of higher investment and lower interest rates. Nations such as Brazil and Argentina, on the other hand, have lost their international financial credibility and suffer the "dark side" of interdependence. The results include capital flight, poor credit ratings and financial instability.

Beyond the interdependence issue, there is more stress in the financial system: stress due to large capital flows, increased competition, and strains on institutional and regulatory frameworks. The liberalized international financial environment and the new technology allow for enormous capital outflows when investors are unhappy with a situation. A classic example was the 1979 run on the U.S. dollar, after which Federal Reserve chairman Paul Volcker pushed up U.S. interest rates and the world entered the 1981-82 recession.

The blurring of distinctions between the traditional roles of financial institutions and regulators is putting great stress on the U.S. regulatory system. In the past the SEC, the Comptroller's Office, the FDIC, the Federal Reserve and other agencies had specific regulatory roles; but today financial activities do not fit neatly into the old framework.

The situation is even more difficult in countries with weak regulatory and supervisory systems. Countries without a tradition of prudential regulation and oversight have to ask, "Who's in charge?" because of rapid growth in the sophistication and interdependence of financial markets.

A key problem in developing countries is the lack of accurate financial and economic information. Such information is needed not only for regulation and supervision, but to help governments make economic policy as well. The IMF and the World Bank both stress the importance of accurate and timely information, and are beginning to require better data as part of their conditions for structural adjustment loans. This requirement thus becomes a key element in the modernization of regulatory and supervisory systems in the developing world.

Bank regulation itself make take various forms. The French and West German systems are quite centralized, while the U.S. system is more fragmented, with nine federal banking agencies, in addition to state banking laws in the 50 states. There are 15,000 banks, 2,000 savings and loans and 20,000 credit unions in the United States.

Regulation is becoming even more relevant today because national governments are becoming the lenders <u>and</u> investors of last resort. When a bank is about to fail, a government must decide whether the problem is one of liquidity or solvency. The former would require more lending to the bank, while the latter would require investing in or taking over the bank. The investor role is growing.

Bank failure can be disastrous for developing countries, as it can ruin development plans, cut capital flows, and jeopardize agreements with the IMF and the World Bank. Yet only now are many countries giving their governments the statutory base to regulate and supervise their banks. The basic needs of banking regulation are virtually the same around the world: consistent bank licensing requirements, government access to bank records, stronger government influence on bank policies and management, and more authority for regulators to "clean up" weaker banks.

Prudential regulation can be preventive or curative. The first type of preventive regulation is 'off-site': banks send reports to the regulators. These reports are usually computer tapes, and compose the "call system" of reporting. The system has worked well in the U.S., though it was unfortunately not used to monitor the savings and loans. The call system is being adopted around the world, and has the positive side effect of providing current and accurate financial information to the government.

'On-site' regulation means that government agencies are present at the bank. This system is well-established in the U.S. and Western Europe, and is growing in Asia. It is rather weak in Latin America, due in part to the expense of training and maintaining staff.

On-site bank examiners perform preventive supervision by analyzing and ranking bank assets; assets may be considered "ok," "substandard," "doubtful," or "loss." The total of criticized assets is then calculated as a percentage of the bank's capital.

Similar calculations are performed on indicators such as assets, management, earnings, and liquidity. Combined, these provide an overall ratio in which an average score of '1' is ideal while a score of '5' indicates a bankrupt bank. Ideally most banks will be in the 1-2 range.

For curative supervision, a weakened bank reaches a agreement with regulators to make changes to improve the bank's criticized assets. Such agreements could include formal accords, civil or criminal penalties to change management, or cease and desist orders.

There is a loose international network of bank regulators, centered on the Bank of International Settlements (BIS) in Basle, Switzerland. The BIS seeks compatibility and consistency in banking regulations, and has worked extensively in Europe, the Caribbean, Southeast Asia and the Persian Gulf area, seeking to rationalize regulations and promote international regulatory cooperations.

There is already a strong framework in place for international cooperation in bank regulation; the question is one of money.

Many developing countries do not have the resources to buy personal computers, trained personnel, and travel to international conferences. One area in which A.I.D. could make an important contribution would be promotion of regional cooperation and training and regulation and supervision.

The goals should continue to be compatibility and consistency. In the meantime, slow trends toward better securities regulation and more active supervision by bank directors could help improve the regulatory environment. External auditors are increasingly being asked to be responsible to governments when they encounter banks in trouble, and countries such as Switzerland and Hong Kong are demanding greater disclosure by banks.

A.I.D. can play an important role in regulation and supervision, performing training and support roles which will help strengthen financial systems. "Let the World Bank and the IMF build the skyscrapers in developing countries; A.I.D. will put in the plumbing. These tasks are discrete, measurable, and very useful," Bench said.

In his commentary on Bench's presentation, Clifford Lewis of AA/PPC emphasized the value-added aspect of financial markets and regulation in financial sector development. He said A.I.D. has acknowledged that "guided development" won't work, and that private initiative is needed.

A.I.D. should also bear in mind the transactional and payments roles of the financial sector; these functions are fundamental for the smooth operation of any economy. Developing countries who do not modernize will find themselves at a major competitive disadvantage in terms of financial competitiveness, Lewis said.

Risk is a key element in any financial sector reform. Regulations should reduce risk for the investor and for the system at large, but many "first steps" actually increase risk. Thus there is a need for an integrated regulatory package, one which is institutionally feasible and which will be credible.

Finally, A.I.D. should remember the political element. There are often strong political pressures associated with the financial sectors of developing countries, and these pressures can make reform more difficult. Again, there must be a vision of what is institutionally and politically feasible.

Bank Restructuring

In the last session of day one, Diana McNaughton of the World Bank spoke on bank restructuring. She discussed creating the framework to deal with insolvent institutions and strengthen bank management. With the current controversy over this country's savings and loans, these are no longer such arcane topics, she said.

There are various factors which lead to bank problems in the developing world: inadequate regulation and supervision; directed lending by state banks; fraud and political interference; and high loan concentrations in certain sectors of the economy. Banks tend to take greater risks as they get into trouble, thus aggravating their problems. Weak internal controls and poor management also weaken banks. Many bank managers in the developing world see banks as distributors of funds and not as risk handlers; this lack of respect for risk is in itself risky.

Many governments are reluctant to tackle insolvent banks: political patronage may be at stake, and close analysis of a bank's finances may expose a "quasi-fiscal deficit" the government would prefer to keep secret. There is also the risk of undermining public confidence in the entire banking system, with dire economic and political consequences: a "domino effect" of failing banks; capital flight; disruption of the payments system; and a blow to national pride.

Finally, bank reform often implies reform in other areas of the economy, such as taxation, subsidy and tariff policy, and monetary policy. There are invariably political costs to be paid for reform in these areas, and many governments are not willing to pay such costs, above and beyond the actual financial cost of carrying out bank reform. In general it is easier to carry out such reforms after a change in regime, as in the Philippines or in the newly-democratic countries of Eastern Europe; a new government with a popular mandate usually has a better chance of achieving real reform when the population is completely disenchanted with the old regime.

The actual process of bank restructuring depends upon the local circumstances: the legal and regulatory framework; the social and cultural situation; and whether the bank is privately owned or government-run.

The first step is to determine the condition of the bank. The bank's problems are identified and quantified through loan portfolio analysis. Often the World Bank contracts a large public accounting firm to perform this task.

The second step is "changing the rules of the game;" this means looking at the regulatory and supervisory system which allowed the bank to get into such trouble, and then changing the system so it will not happen again.

Step three is the "surgical phase." This consists of moving assets, to segregate and dispose of non-performing loans. These assets are often moved to an ad hoc institution for foreclosure and disposal, thus getting the off the books of the bank in question.

Step four is to determine the fate of the institution: will the bank be merged with another, stronger bank, or can it function alone? Should the bank be sold outright, or be allowed to fail? Many factors must be considered in this decision, including depositor and shareholder rights, the role of the bank in the country's payments system, and the potential impact on the nation's credit rating.

After the fate of the bank is decided, financial losses must be allocated in step five. The World Bank urges banks to recapitalize and cut dividends; private stockholders should absorb the bank's losses, and depositors should be protected.

The sixth step is financial restructuring according to generally accepted principles. There may be a need for a direct injection of capital, and governments should consider the probable impact this will have on the fiscal deficit.

The seventh and final step is "the changing of the guard." It is a cardinal rule that the management of a failed bank must be changed, but this can be a problem in some less developed countries; there just are not many people trained to manage large financial institutions. There may be a role here for A.I.D. in the training of personnel and the provision of computers and training, McNaughton said; human resources are critical.

A key role for the World Bank is convincing government authorities of the necessity for reform and restructuring of their banking system. Restructuring "keeps the system going," and often reduces the "quasi-fiscal" deficit. In addition, restructuring maintains the payments system and public confidence in the country's banks.

In his comments on McNaughton's presentation, Bob Bench pointed out that it is actually difficult for a bank to lose money; there must be a lot going wrong. Thus much more is usually needed than recapitalization and a change in management. There is a need for strong political will, and there must be indigenous talent capable of replacing the old bank management. Too often governments do not move to restructure a bank until "there is a gun held to its head," and usually the World Bank and the IMF hold the gun.

Responding to a question on whether some banks are "too big to fail," Bench said that the U.S. considers banks on a case-by-case basis. The U.S. has adopted the policy of ensuring deposits [through the Federal Deposit Insurance Corporation and the Federal Reserve] in order to reassure domestic and international creditors. "In the future, depositors in the U.S. will be protected; the threat of a deposit run on a big bank is just too awesome," Bench said.

Stock Markets and the Mobilization of Domestic Risk Capital

The morning of the second day of the conference focused on capital market development. In the first presentation of day two, John Schroy and John Evans of Price Waterhouse discussed the role of stock markets in mobilizing domestic risk capital, highlighting the benefits and constraints of stock markets, the regulatory requirements, and the lessons learned from experiences with capital markets in the developing world.

According to Schroy, there are three prerequisites for a successful stock market, i.e., an unsubsidized market with continuous and competitive trading which can provide a livelihood for full-time traders.

The first requirement is affluent investors. A rough rule of thumb might be 25,000 family units, each on average disposing of $25,000 for long-term investment. A rich country would need a population of at least one million to generate that much disposable income, while a poor country would need a much larger population. Thus population and the size of the economy are crucial factors, Schroy said. Countries such as Hong Kong and Singapore can support active stock markets, but less-populous nations such as Barbados and St. Kitts in the Caribbean are simply too small.

The second necessity for a successful stock market is "competitive counters," that is, the existence of enough attractive securities to compete worldwide. Investment flows to where it is safest and most profitable, and a successful market will offer a broad selection of securities with a range of risk and profit possibilities. In addition, there must be able and honest management, and access for large corporations, Schroy emphasized; stock markets cannot exist solely for small business, since there is not continuous trading. Policy makers should bear this in mind when planning economic reform in Eastern Europe.

The third prerequisite is aggressive and active stock brokers who are energetic in developing and serving investors. Securities trading must be their full-time job, and it must provide them a livelihood. "Bold brokers who work with affluent investors to create competitive counters" are the final element of the triad of a successful stock market, Schroy said:

Thus there is a relatively simple "recipe" to follow when deciding whether a country can support a stock market. First, determine if the three conditions above can be developed. If they cannot, consider a regional exchange; do not waste time on a national stock market for the sake of prestige.

Next, if the three conditions are feasible but don't exist, something is blocked; you must look for the problem. Possible blockages might be barriers to entry for new brokers, trade or foreign exchange policies, or tax disincentives. Sometimes the solution cost more than the government is willing to pay. Finally, if obstacles have been exposed and the decision made to overcome them, there must be a patient search for consensus to make these changes for the sake of capital market development.

In his presentation, John Evans pointed out that capital markets have become the "status" market in some developing countries, but that the search for prestige should not be an end in itself; governments must have the goal of establishing a stable source of long-term debt and equity capital. There must also be a potential for profit in order to attract investors.

Government policies have an important impact on stock market development. There must be a general commitment to free markets, or money from A.I.D. and other donor agencies will be wasted. Evidence of this commitment to markets and free enterprise includes allowing for the transfer of properties and the existence of the profit motive.

An example of how not to proceed was provided by Egypt several years ago, when that country sought to launch a capital market under complete government control. Despite much fanfare, the market was doomed to failure because of Egypt's socialist economic system, Egyptian society's lack of trust, and the country's lack of accounting standards.

In contrast, Kenya and Indonesia have been carrying out successful reforms in their economies and promoting the development of capital markets. There has been high-level interest and involvement in both instances, and this has been a key to success, Evans said. In addition, in both countries there has been a commitment to free enterprise and a willingness to let the securities industry play a large role in regulating itself.

Using the private sector for regulation and supervision of capital markets has been successful in the U.S. and abroad, Evans said. There are several advantages to this: first, the private sector has unsurpassed expertise in its segment of the market, and can thus provide excellent advice; second, that advice comes cheap when it is voluntary; and third, when the private sector is involved it has more of a stake in regulations and will make a greater effort to understand and abide by them.

In general, government's role in capital market regulation and supervision should be limited, with the bulk of responsibility resting with the private sector. Government should be concerned with freedom of entry and competition, with tax fairness, and with ensuring the fullest and most accurate disclosure possible. Government regulators should also be involved in issues of capital adequacy and expertise standards. Most remaining regulation and supervision should be delegated to the private sector.

In sum, A.I.D. and other policy makers should remember that government policies have a big impact on capital market development. There must be a commitment to free enterprise and the profit motive, and governments should work to establish an economic and regulatory environment which will foster competition and protect investors. Finally, the private securities sector should have an important role in setting standards and in regulating and supervising itself.

In his comments on the capital markets presentations, S. Melvin Rines of Kidder, Peabody, and Co. stressed the importance of investor confidence, both in the regulatory system and in the reliability of disclosed financial information. He said that investors today are more adventurous than in the past, and the consequent increase in competition and risk has made investors even more dependent upon reliable information. Investor confidence a country's financial and legal systems is a crucial factor in attracting risk capital, Rines said.

Tahar Adassy of the Center for Privatization emphasized the need for cooperation between government and the private sector in the development of capital markets. He also pointed out obstacles to capital market development which are often encountered in developing countries: the lack of communication and teamwork between economic actors such as banks, ministries, and brokers; poor telecommunications networks; slow payments systems; reluctant bureaucrats; and high levels of waste, which reduce domestic savings and leave fewer resources available for long-term investment.

Adassy said that a government promoting a capital market should concentrate on the domestic market and not rely too much on foreign capital; when direct foreign investment is sought, it should be from a large company that will be able to make a genuine impact in the domestic economy. A.I.D. can play an important role in education and training, and in encouraging banking reform to take place alongside financial market development.

During the question and answer session which followed the commentaries, Ennio Rodriguez of ROCAP/FEDEPRICAP discussed his experience with regional stock market development in Central America. His organization is promoting secondary markets in the various Central American countries, even though this may only serve educational purposes for the time being. It is also promoting legal reforms to make the region more attractive to investors and for market development. Finally, there is an effort to promote similar disclosure policies, investment instruments, and payments systems, so that the small markets which will eventually make up the regional market "speak the same language." This provides a potential niche for A.I.D. in providing courses and cross-training, Rodriguez said.

International Capital Mobilization

In the morning's second program Antoine van Agtmael of Emerging Markets Investment Corp. examined the potential of developing country stock markets, and the link between those markets and overall development. While acknowledging the risks inherent in investing in developing countries, van Agtmael argued that international portfolio investment is an enormous source of capital, and that stock markets in many developing countries can and do serve to channel funds into the developing world.

According to van Agtmael, the top 15 emerging markets represent $1.5 trillion in GNP, and as a group these newly industrializing countries are the most dynamic segment of the world economy, with growth rates well above the world average. They represented more than $600 billion in market capitalization as of December 1989, and have more than 8,000 listed stocks. At the same time, international investment in emerging markets has increased from less than $500 million to more than $10 billion in five years.

There are several significant international trends which bode well for emerging markets. Recent shifts in economic policies favor market growth, as governments move toward trade liberalization, less government intervention, greater reliance on the private sector, and greater realism in interest and rate exchange rate policies.

In addition, local bond and equity markets now raise more money than World Bank loans for developing countries; domestic savings are being mobilized. Furthermore, there has been a shift in savings from banks to equity-type instruments. Finally, there has been a great increase in wealth in the Far East, and the discovery of many healthy, "under-indebted" corporations in "over-indebted" countries.

International portfolio investors have several reasons to be interested in the emerging stock markets: their growing size and the prospect of strong economic growth; the opportunity for risk diversification and attractive rates of return; the opportunity for "bargains," though less so now in Asia; and the potential for big profits for pioneering investors.

Emerging stock markets which have already been "discovered" by international investors include Taiwan, South Korea, Malaysia, Singapore, Thailand, the Philippines, and Indonesia in Asia, Mexico, Brazil, and Chile in Latin America, and Greece, Portugal and Turkey in Southern Europe and the Middle East.

A second tier of countries with long-term investment potential would include China, India, Pakistan and Papua New Guinea in Asia; Argentina, Venezuela, and Colombia in Latin America; Jordan and Morocco in the Mideast, and Ivory Coast, Kenya, Nigeria, and Zimbabwe, van Agtmael said. Several firms now specialize in investing in a diversified group of emerging markets, and there are 131 emerging market funds, including 30 Asian, 10 Latin American and more than 80 country funds.

Why should developing countries be interested in developing their stock markets? Foreign portfolio investment is a significant potential source of finance for corporations, utilities, and even infrastructure; increased demand and better valuations of stocks make it more attractive for companies to raise equity finance; international scrutiny forces better corporate disclosure; and finally, international investors are less "market gossip" oriented than local investors and focus more on fundamentals.

The lessons of the last few years for A.I.D. and other policy makers include the following: sound economic policies are the key to successful market development; market prices promote more efficient economies than central planning. In addition, foreign direct investment can serve as a hedge against protectionism, while international portfolio investment can provide an enormous potential source of funds for investment.

Kenneth Hoffman of Shearson Lehman Hutton agreed with van Agtmael about the importance of emerging markets, but pointed out that there are also many negative aspects of investing in such markets. He said that lack of disclosure, insider trading, and a high degree of manipulation can create nightmares for investors. Developing country markets can, Hoffman reiterated, be dangerous for both the issuer and the investor.

New Directions in Financial Sector Research

In the final presentation of the conference, three scholars explored new directions in financial sector research. In the first talk, Yoon Park of the Financial Markets International Research Institute (FMIRI) spoke on new international financial instruments and their relevance for developing countries. He illustrated several versions of asset, liability and interest rates swaps, and discussed how Mexico is able to use swaps to reduce its debt through the Brady Plan with relatively small cash payments.

In discussing some of the many financial instruments offered in today's rapidly innovating financial marketplace, Park pointed out that different borrowers will usually have different "comparative advantages" in the financial markets: some borrowers may be able to borrow at lower fixed rates, and others only at much higher floating rates. These differing credit ratings provide room for swapping, so that both parties to a swap transactions will end up paying lower interest than they would have otherwise paid.

A.I.D. could benefit from an awareness of the efficiency and hedging capabilities of swaps, Park said. Since many of the less developed countries in which A.I.D. is active are burdened by very high debt service payments, any legitimate option which lowers their interest payments should be explored.

The second speaker, Ted Barnhill of FMIRI, discussed his research on private power projects and capital market development. A number of developing countries are either undertaking or considering electric generation projects where private firms will build, own, and operate power plants. Several factors have contributed to this trend: many developing countries public power authorities are run inefficiently; energy demand is growing; and bilateral and multilateral energy financing is not growing as fast as energy demand. This has led to a desire for research into private power and its links to financial market development.

Of all the risks inhibiting private power projects in developing countries, the most difficult to overcome is the risk that governments and public power entities will again not live up to the agreed tariffs and power purchase agreements, leading to inadequate realized returns on investment. Security markets and non-bank financial institutions exist in developing countries but are relatively underdeveloped and provide only limited long-term financing for various projects.

Properly structured private power projects in less developed countries could offer a steady supply of lower risk securities to help develop new issue markets, investment banking organizations, secondary trading markets and private placement markets in developing countries. Various studies by A.I.D., the World Bank, and the IFC have identified various necessary financial market reforms, and some countries are moving forward on recommended programs to strengthen local capital markets.

Charles Feigenoff of INTRADOS/International Management Group spoke on local currency municipal bond financing. Local currency municipal bonds may help meet developing countries' need for capital improvement and urban economic recovery. State and local government autonomy from the central government is not present in most developing countries. Thus the American experience with municipal bond financing can serve as an example, but not as a pattern for developing countries. Nevertheless, municipal bonds in developing countries can channel investment to local infrastructure, housing and industrial development.

A.I.D. should not assume the entire risk of the projects; market efficiency is promoted by having local investors assume some of this risk. Initially, A.I.D. may minimize risk by concentrating on projects that can best pay their own way, but A.I.D. may also assume additional risk if the project meets other development priorities, such as service to urban areas that include commercial and industrial sites. The complexity of the projects will depend largely on the size of the developing country economy and the existence of functioning capital markets.

By providing a guaranty, A.I.D. would strengthen local institutions and autonomous municipal governments and contribute to decentralization in many developing countries. Municipal bonds provide a means of mobilizing domestic savings and directing these resources to meet essential housing and infrastructure needs. Ultimately, the goal of this program would be to transfer the legal and financial knowledge necessary for the introduction of municipal bonds to private law firms, underwriters and banks in developing countries.

<u>Conference Wrap-up</u>

In his closing remarks, conference chairman Malcolm Gillis emphasized the recurrent themes which arose in the various presentations and panels: the internationalization and globalization of financial markets; the importance of disclosure and solid accounting practices for financial sector development; and the need for social and political consensus when undertaking financial reforms.

Gillis also pointed out the dangers of expecting too much too soon. Financial sector development requires patience and a commitment to free enterprise and the private sector. Nevertheless, governments cannot simply "stand out of the way;" they must play a continuing regulatory role and seek to provide an appropriate macroeconomic environment for financial sector growth.

There are various niches where A.I.D. can make important contributions: in "arranging marriages" between other donor agencies, and in offering specialized study and training.

Another potential role is the provision of financial expertise, so that less developed countries can eventually negotiate with richer nations as equals, with a similar understanding and mastery of the intricacies of international finance.

There is a need to be open to change, Gillis said, but A.I.D. need not rush to abandon what has worked well in the past. "A.I.D. should be open to innovation, but should at the same time be willing to return to 'the old ways' if they work best," he said. Policy makers should be aware of the changes sweeping the financial world, and remember they will need "lots of arrows in their quivers" to be successful in financial sector reform.

A.I.D., and the United States in general, should remember the extreme importance of strong primary and secondary education, Gillis said. The great success of the newly industrialized countries of the Far East is due in great part to their stress on education, and the U.S. is clearly falling behind in this area, Gillis said.

APPENDICES

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APPENDIX A: AGENDA

THE FINANCIAL SECTOR IN DEVELOPING COUNTRIES: ISSUES FOR THE 1990S

Sponsored by:
AID/PRE's Financial Sector Development Project (FSDP)

March 14-15, 1990

DAY ONE

9:00-9:15 OPENING REMARKS
Neal Peden (Assistant Administrator, Bureau for Private Enterprise, Agency for International Development)

9:15-9:45 INTRODUCTION
Conference Chairman, Malcolm Gillis (Duke University)

MORNING SESSION: THE POLICY ENVIRONMENT

9:45-10:45 TOPIC 1: POLICY FRAMEWORK FOR LIBERALIZATION OF FINANCIAL SECTORS IN DEVELOPING COUNTRIES
Discussion of developing countries' experience liberalizing financial sectors, and analysis of lessons to be learned for future policy formulation.
Speaker: Phil Wellons (Harvard University)

Commentator: Millard Long (World Bank)

10:45-11:00 COFFEE BREAK

11:00-11:45 CONTINUATION OF TOPIC 1

11:45-12:15 TOPIC 2: FINANCIAL SECTOR STRATEGIC ASSESSMENT TECHNIQUES
Report on techniques for conducting strategic assessments of financial sectors, and on conclusions and action plans flowing from these assessments. Will explain the strategic assessment process.
Speaker: Auguste Rimpel (Price Waterhouse)

12:15-2:00 LUNCH

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AFTERNOON SESSION: STRENGTHENING FINANCIAL INSTITUTIONS

2:00-3:15 **TOPIC 1: REGULATORY AND SUPERVISORY FRAMEWORK FOR STRENGTHENING FINANCIAL INSTITUTIONS**
Presentation of key areas of developing country systems of regulation and supervision of financial institutions. Will look at how those systems must be strengthened to meet the challenges imposed by a rapidly changing and deregulated financial services industry.
Speaker: Robert Bench (Price Waterhouse)

Commentator: Clifford Lewis (A.I.D.)

3:15-3:30 COFFEE BREAK

3:30-4:45 **TOPIC 2: BANK RESTRUCTURING**
Discusssion of developing country financial institutions, which are in distress, and of the fact that many governments have not come to terms with this. Will assess needs for external assistance, focusing on aid in creating the framework to deal with insolvent institutions and strengthen bank management.
Speaker: Diana McNaughton (World Bank)

Commentator: Robert Bench (Price Waterhouse)

4:45-5:00 WRAP UP OF DAY ONE

DAY TWO

MORNING AND AFTERNOON SESSIONS: CAPITAL MARKETS DEVELOPMENT

9:00-9:15 OPENING REMARKS
Malcolm Gillis, Conference Chairman

9:15-10:45 **TOPIC 1: ROLE OF STOCK MARKETS IN MOBILIZING DOMESTIC RISK CAPITAL**
Discussion of the role of stock markets in mobilizing domestic risk capital. Benefits, constraints, regulatory requirements, and lessons learned wil be highlighted.
Speakers: John Schroy (Price Waterhouse) and John Evans (Price Waterhouse)

Commentators: S. Melvin Rines (Kidder, Peabody, and Co.), Tahar Adassy (Center for Privatization)

10:45-11:00	COFFEE BREAK
11:00-12:30	TOPIC 2: INTERNATIONAL CAPITAL MOBILIZATION Examination of the potential for developing country stock markets, which are becoming attractive to international money managers, and the relevance of those markets to overall development. Speaker: Antoine van Agtmael (Emerging Markets Investment Corp.) Commentator: Hugh Wynne (Shearson, Lehman, Hutton)
	LUNCH: NO LUNCHEON PLANNED
2:00-3:30	TOPIC 3: PREVIEW: NEW DIRECTIONS IN FINANCIAL SECTOR RESEARCH Discussion of trends in financial sector applied research. To be chaired by Michael Unger (AID). Will include discussion of: -- **New International Financial Instruments, and Their Relevance for Developing Countries** (Yoon Park, Financial Markets International Research Institute (FMIRI) -- **Private Power Financing and Capital Market Development** (Theodore Barnhill, FMIRI) -- **Potential Benefits of U.S. Government-backed Local Currency Bond Issues** (Charles Feigenoff, Intrados/International Management Group)
3:30-4:15	WRAP-UP AND GENERAL QUESTIONS Chairman, Malcolm Gillis

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APPENDIX B: LIST OF PARTICIPANTS

FINANCIAL SECTOR DEVELOPMENT PROJECT CONFERENCE
LIST OF PARTICIPANTS

Name	Affiliation
Juan Carlos Acebal	Price Waterhouse
Tahar Aclassy	Center for Privatization
Michael Adler	ANE/EA
Rafael Aguirre-Sacasa	Price Waterhouse
Timothy Alexander	PRE/H
Brian Ames	USAID/Yaounde
Jim Ammerman	U.S. Department of the Treasury
Robert Archer	ANE/TR
Robert Asselin	PRE/I
Melody Bacha	S&T/RD/EED
Edwin Barber	U.S. Department of the Treasury
Theodore Barnhill	Financial Markets Int'l Research Inst.
Robert Bench	Price Waterhouse
Mark Berumen	XA/PL
Jose Carlos Bonilla	Central Reserve Bank/El Salvador
J. Richard Breen	Price Waterhouse
Melissa Brinkerhoff	S&T/RD/RRD
Mark Brown	Price Waterhouse
Jeff Colyer	Administrative Office/AID
Carolin Crabbe	PRE/I
Gil Crawford	AFR/MDI/AVCP
Michael Decker	PRE/I/Consultant
James Dry	PRE/I
Deborah Dungan	Price Waterhouse
John Evans	Price Waterhouse
Michael Farbman	S&T/RD/EED
Penny Farley	PRE/PD
Charles Feigenoff	Intrados/International Management Group
Margarita Fernandez	Price Waterhouse
Robert Firestine	Inter-American Mgmt. Consulting Group
Barbara Friday	Price Waterhouse
Sandra Frydman	PRE/PD
Robert Friedline	PRE/DP
Viviann Gary	USAID/Sanaa
Malcolm Gillis	Duke University
Sandra Goshgarian	PRE/I
Terry Hardt	S&T/RD/RRD
Leonard Horwitz	Price Waterhouse
Hunt Howell	IDB
Peter Kimm	PRE/H

E. E. Kissinger	USAID/Port au Prince
Edward T. La Farge	Center for Privatization
Francisco Lainez	USAID/San Salvador
Jerome La Pittus	PPC/EA
Roberto Leiza	Stock Exchange of Honduras
Clifford Lewis	AA/PPC
Millard Long	World Bank
Richard Loth	AFR/MDI/AVCP
Mohini Malhotra	Nathan Associates, Inc.
Lance Marston	ANE/PSDS
Sandra Martinez	USAID/San Salvador
William McFadden	U.S. Department of the Treasury
Diana McNaughton	World Bank
Percy McNutt	Central Bank of Guatemala
Reese Moyers	USAID/Tegucigalpa
Gunther Muller	Inter-American Investment Corporation
Bharat Nauriyal	Ohio State University
Herman Navas	Central Reserve Bank/El Salvador
Michael Newman	PRE/PD
Frankie Nieves	PRE/I
Yoon Park	Financial Markets Int'l. Research Inst.
Neal Peden	AA/PRE
Julia Philipp	Price Waterhouse
Marie Pleus	U.S. Department of the Treasury
Mario Porras	Financiera de Inversion, S.A./Guatemala
Don Pressley	ANE/PSD
Auguste Rimpel	Price Waterhouse
S. Melvin Rines	Kidder, Peabody, and Co., Inc.
Daniel Roberts	PRE/I
Ennio Rodriguez	ROCAP/FEDEPRICAP
Phillip Rourk	The Americas Group
Benjamin Rowland	Inter-American Investment Corporation
Christopher Russell	AA/PRE
Wolfgang Schaefer	Inter-American Ivestment Corporation
Neil Schreiber	LAC/PS
John Schroy	Price Waterhouse
Harold Schuler	Price Waterhouse
Jane Seifert	AFR/MDI
Kathe Simpson	Food for Peace & Voluntary Asst. (FVA)
Thomas Timberg	Nathan Associates, Inc.

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Paul Tuebner	LAC ROCAP/Guatemala
Michael Unger	PRE/CE
Antoine van Agtmael	Emerging Markets Investment Corporation
Rudolf van der Bijl	IFC
Jan van der Veen	PPC/PDPR/RP
Gary Vaughan	ANE/PSD
James Vermillion	LAC/PS
Rafael Viejo	Guatemalan Export Bank
Robert Vogel	Inter-American Mgmt. Consulting Group
Baljit Vohra	Center for Privatization
J. D. Von Pischke	World Bank
Sean Walsh	PRE/H
James Watson	USAID/Jakarta
Daniel Weiss	Price Waterhouse
Phil Wellons	Harvard University
Hugh Wynne	Shearson Lehman Hutton

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APPENDIX C: SPEAKERS AND COMMENTATORS:
BIOGRAPHICAL AND PROFESSIONAL INFORMATION

CONFERENCE SPEAKERS AND COMMENTATORS

BIOGRAPHICAL AND PROFESSIONAL INFORMATION

SPEAKERS:

Malcolm Gillis

A specialist in Economic Development, Fiscal Theory and Policy, and Monetary Theory and Policy, Dr. Gillis is a professor of Economics and Public Policy at Duke University. Since 1986, he has also served as Dean of the Graduate School and Vice-Provost for Academic Affairs. Dr. Gillis spent 15 years at Harvard University, where he was Institute Fellow in the Harvard Institute for International Development.

Dr. Gillis' research and advisory activities have taken him to numerous countries in Asia, Africa and Latin America. He was a member of the Musgrave Commission for Bolivian Economic Policy which analyzed and constructed options for improvement of tax, expenditure and other government policies for the Bolivian Ministry of Planning. In Indonesia, Dr. Gillis organized and directed a team of twenty-eight expatriate specialists from 1981 to 1984, to provide the basis for a fundamental tax reform which was implemented in 1984-1986. He also served as the Project Director for a training and technical assistance project for the Indonesian Ministry of Finance. This undertaking entailed provision of technical assistance on trade, environmental and public enterprise issues. It also involved the organization and implementation of a series of six intensive specialized training courses in natural resources, urban development, and monetary theory and policy.

Dr. Gillis has published over fifty articles on public finance, natural resources, and economic development. Examples of his published works include "Fiscal Reform for Columbia", "Economics of Development", and "Tax Reform in Developing Countries".

Dr. Gillis received his B.A. and his M.A. from the University of Florida, and his Ph.D. from the University of Illinois.

Philip A. Wellons

Mr. Wellons is the Deputy Director of the Program on International Financial Systems at Harvard Law School. The

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Program promotes research about the financial systems of countries in Asia, Latin America, the Middle East and other developing countries.

Mr. Wellons concentrates his efforts on the way in which corporations and national governments affect one another and the world financial system. International Finance, particularly as it involves developing countries, is his special field. He has done consulting for major banks, the OECD, the World Bank, the International Legal Center, and various agencies of the United Nations. His most recent book, "Passing the Buck: Banks, Governments, and Third World Debt", appeared in 1987. His earlier books include an analysis of the strategies of developing countries borrowing on the eurocurrency markets and the corporate strategies of the major transnational banks. His casebook, "World Money and Credit", was published in 1983.

Mr. Wellons received his Bachelor of Arts from Swarthmore College and his J. D. from the Columbia University School of Law.

Auguste E. Rimpel, Jr.

Dr. Rimpel has over sixteen years of experience in international management consulting. A Senior Manager and Director of Price Waterhouse's International Management Consulting Services in Washington, D.C., his professional experience has focused on management and organizational analysis and institutional strengthening. Dr. Rimpel has previously been a Vice President with Arthur D. Little, and a Partner with Booz-Allen.

Dr. Rimpel has extensive experience in organizational restructuring. He worked with the Price Waterhouse Colombian practice to develop strategies for systems implementation. He was also responsible for redesigning the organizational structure and management system of the Ministry of Transport and Works in Barbados and for restructuring the largest Brazilian steel company prior to a World Bank-funded expansion. Other engagements included directing a management study for the electrical utility company of the Government of Honduras and directing an institutional assessment of the Central American Bank for Economic Integration.

Dr. Rimpel received his Ph.D. from the Carnegie Institute of Technology, his M.S. from the Massachusetts Institute of Technology and his B.A. from the Inter-American University in Puerto Rico.

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Robert R Bench

Mr. Bench is the managing partner of Price Waterhouse's Regulatory Advisory Services Group in Washington, D.C. He has established an outstanding reputation in banking regulation as a member of the Cooke Committee and for his subsequent work in advising government and financial institutions. With Price Waterhouse, Mr. Bench has provided technical assistance to the Central Banks of Malaysia and Bolivia, the World Bank, the Bank of International Settlements, the United Nations, the International Monetary Fund, and the Inter-American Development Bank.

After graduating from Boston University, Mr. Bench earned a Master's Degree in Public Administration from Harvard University. Mr. Bench has over seventeen years of experience with the United States Treasury, serving as the Director of International Banking and as the Associate Deputy Comptroller of Currency. In 1982, Mr. Bench became a Deputy Comptroller of Currency in charge of supervising the international lending of U.S. banks, as well as working with bank supervisors in twenty other countries.

Diana McNaughton

Ms. McNaughton is currently a Principal Financial Planning Specialist for the World Bank. A specialist in the economics of developing countries, Ms. McNaughton has vast experience in the financial sector. She has worked in a number of Asian, Latin American, and African countries, including Indonesia, Morocco and Argentina. In Indonesia, she participated in a financial sector study where she identified major issues in the banking system. Her evaluation in this country culminated in a report that included discussions of the structure and regulatory framework of the Indonesian banking system and of bank accounting practices. Prior to joining the World Bank, Ms. McNaughton worked as Vice President for Citibank and the American Security Bank.

Ms. McNaughton received her B.A. from Sarah Lawrence College and her M.A. from the Johns Hopkins School of Advanced International Studies.

John O. Schroy

Mr. Schroy is a specialist in capital markets development and equity financing. With over twenty years of experience in investment banking, Mr. Schroy has managed such financial services as international equity funds, bond dealerships, stock brokerages, mutual funds, and securities transfer services. He was active in equity underwriting syndications in Brazil and Europe. Mr. Schroy also organized and marketed equity investment plans in Brazil and served as an advisor on the modernization of that country's stock exchange and bond market.

Mr. Schroy served as a Senior Partner for Paulding Associados S.A. in Rio de Janeiro in the early 1970's. In 1975, he became a Vice President of Chase Manhattan Bank of New York. He earned a degree in Economics from Cornell University.

John R. Evans

Mr. Evans presently works as an international consultant for Price Waterhouse dealing with foreign governments on securities markets. Previously, Mr. Evans served as a Commissioner of the Securities and Exchange Commission (1973-1983) and as a professional staff member of the United States Committee on Banking, Housing and Urban Affairs (1964-1971). His experience in developing countries is extensive. He has worked with USAID in Thailand, Sri Lanka, Indonesia and Kenya, where he reviewed stock exchange regulation matters. More recently, he has worked on projects in Oman for the International Finance Corporation, in Egypt with the United Nations Development Program, and in Singapore for the Monetary Authority of Singapore. As an S.E.C. commissioner, Mr. Evans consulted with foreign governments on the development of their securities regulation.

Mr. Evans received his Bachelor's and Master's Degrees in Economics from the University of Utah, where he later served as an Economics professor in the College of Business.

Antoine van Agtmael

Mr. van Agtmael is President and managing partner of Emerging Markets Investment Corporation (EMI), which manages $350 million in emerging markets, and Managing Director of the Strategic Investment Management group in Washington, D.C. He is also a Director of the India Growth Fund, a NYSE listed closed-end fund. Prior to his current position, Mr. van Agtmael was Deputy Director of the Capital Markets Department of the International Finance Corporation, an affiliate of the World Bank whose activities center around the promotion of private sector investment in developing economies.

Mr. van Agtmael's involvement with investing in emerging securities markets started in 1976 when he oversaw the Thai Investment and Securities Company's active trading, brokerage, investment management, and underwriting activities in Thailand.

More recently, he was a director of the Emerging Markets Growth Fund, which was privately placed among major international investors in 1986. It was the first fund to focus on diversified investment in newly industrializing markets. Mr. van Agtmael was also involved in the structuring of the Mexico, Korea, Thailand and Malaysia Funds, the latter three which were managed by the IFC. He is the author of "Emerging Securities Markets" (Euromoney, 1984), one of the leading publications on the emerging markets.

Mr. van Agtmael has an M.B.A. from New York University, an M.A. in International Studies from Yale University, and a B.A. from the Netherlands School of Economics.

Michael L. Unger

Michael Unger is currently the Chief Financial Economist in A.I.D.'s Bureau for Private Enterprise. In this position, he is responsible for advising the Assistant Administrator and Deputy Assistant Administrator on a wide range of current economic, financial, and developing country debt issues, as well as contributing to the Bureau's overall private enterprise agenda.

Before joining the Bureau, Mr. Unger was A.I.D.'s representative to USTR and contributed to the formulation of U.S. and developing country trade and investment policy. Prior to joining A.I.D. in 1985, he was with the Federal Home Loan Bank Board and the Treasury Department. Mr. Unger worked for the Office of the Assistant Secretary for International Affairs where he worked on developing country capital markets, as well as financial and debt issues.

A native of Ohio, Mr. Unger was educated at Ohio State University, the Washington University of St. Louis, and the Graduate School of Business Administration of Harvard University.

Yoon S. Park

Dr. Park is currently a Professor of Business Administration at The George Washington University in Washington, D.C. His research and teaching interests are in the fields of international banking and finance as well as international financial markets. He has also taught at Georgetown University and Columbia University.

Before joining the academia, Dr. Park worked at the World Bank as a senior economist, and served as financial advisor to one of the

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largest Korean private conglomerate groups. Among his many publications are "International Banking and Finance Centers" (1989), "International Banking in Theory and Practice" (1984), and "Oil Money and the World Economy" (1976), and many articles and reports on international banking and finance.

Dr. Park has been a consultant to the World Bank, the Asian Development Bank, the U.S. Agency for International Development, and other private and public institutions around the world. He received a Doctor of Business Administration (DBA) degree from Harvard University and a Ph.D. in Economics from George Washington.

Theodore Barnhill

A specialist in the field of financial and futures markets, Dr. Barnhill is the chairman of the Department of Business Administration at George Washington University. Furthermore, he is a member of the directorate of the Financial Markets International Research Institute, formed by professors from the George Washington University. Previously, Dr. Barnhill was Deputy Director of the Office of Financial Resources and Energy Finance in the U.S. Department of the Treasury. He also served as an investment analyst with the Prudential Insurance Company.

Dr. Barnhill has published extensively on the futures market in such respected journals as "The Journal of Financial and Quantitative Analysis", "The Journal of Financial Research", "The Quarterly Review", and "The Journal of Futures Markets."

Dr. Barnhill received a Bachelor's Degree in Chemical Engineering from the Tennessee Technological University and a Master's Degree in Chemical Engineering from the University of Michigan. Dr. Barnhill then received a Master's Degree and a Ph.D. in Business Administration from the University of Michigan.

Charles Feigenoff

Charles Feigenoff is vice president of the Intrados Group, a Washington-based consulting firm providing advanced support services in international finance, investment, and management. Dr. Feigenoff is also editor of "SWAPS: The Newsletter of New Financial Instruments." He has participated in consulting projects for public and private agencies including the Agency for International Development, the Overseas Private Investment Corporation, GTE, Enserch and Kodak. Dr. Feigenoff has written studies on the impact of European unification on the telecommunications industry, on changes in the oil industry structure, and on financial risk analyses of developing countries.

After receiving his B.S. from Cornell University, Dr. Feigenoff earned his Master's degree from the University of Colorado and his Ph.D. from the University of Virginia. His recent publications include: "Reintegration in the Global Oil Industry" (1988), "Financing Third-World Development" (1987), and "U.S. Industrial Competitiveness: The Case of the Textile and Apparel Industry" (1987).

COMMENTATORS:

Millard Long

Between 1960 and 1980 Mr. Long taught economics at a series of American universities - Vanderbilt, Chicago, Harvard and Boston - rising from the rank of assistant professor to professor. In 1962-63 he spent eighteen months as visiting professor at Kasetsart University in Thailand, and in 1967-70 he served as an economic advisor to the Planning Commission in Pakistan. Mr. Long also served as a consultant to various international agencies from 1960-80. In 1980 Mr. Long joined the World Bank as senior financial economist. In 1984 he was asked to start a division now called Financial Systems and Policy Division, which leads the Bank's work on financial sector issues. Mr. Long served as the staff director for the World Development Report in 1989.

Mr. Long did his undergraduate work at Harvard University and his graduate studies at the London School of Economics and the University of Chicago.

Clifford Lewis

Mr. Lewis is the Deputy Assistant Administrator for the Bureau of Program and Policy Coordination at the Agency for International Development. He was directly responsible for creating a policy planning group and a major report on U.S. economic assistance.

Mr. Lewis specializes in analyzing international issues, managing and coordinating policy initiatives. He has instituted major trade policy reforms, and he has helped establish debt management achievements in Latin America, Africa and Asia. Mr. Lewis has also worked for the World Bank and the International Monetary Fund as a Senior Trade and Finance Specialist in Latin America. In this capacity, he was responsible for policy reforms in several high-debt countries.

Mr. Lewis received his Bachelor's degree from Harvard University and his J.D. from New York Law School.

Robert R Bench

Mr. Bench is the managing partner of Price Waterhouse's Regulatory Advisory Services Group in Washington, D.C. He has established an outstanding reputation in banking regulation as a member of the Cooke Committee and for his subsequent work in advising government and financial institutions. With Price Waterhouse, Mr. Bench has provided technical assistance to the Central Banks of Malaysia and Bolivia, the World Bank, the Bank of International Settlements, the United Nations, the International Monetary Fund, and the Inter-American Development Bank.

After graduating from Boston University, Mr. Bench earned a Master's Degree in Public Administration from Harvard University. Mr. Bench has over seventeen years of experience with the United States Treasury, serving as the Director of International Banking and as the Associate Deputy Comptroller of Currency. In 1982, Mr. Bench became a Deputy Comptroller of Currency in charge of supervising the international lending of U.S. banks, as well as working with bank supervisors in twenty other countries.

S. Melvin Rines

Mr. Rines, Senior Vice President and Shareholder of Kidder, Peabody, and Co., Inc., has broad experience as an investment banker in public, corporate and international finance. He is a specialist in the financing of sovereign and supranational credits in the international capital markets and foreign credits in the U.S. domestic market. He serves as financial advisor to foreign countries and is active in international privatizations and restructurings.

At Kidder, Peabody, Mr. Rines is directly responsible for the multi-national development banks, including the African Development Bank, the Asian Development Bank, the Inter-American Development Bank and the World Bank. He is lead banker in

Kidder, Peabody's roles as senior manager for the African Development Bank and rotating senior manager for the Inter-American Development Bank.

Mr. Rines, as adjunct professor at American University, has taught a graduate level course on international capital markets and lectured at the University of International Business & Economics in Beijing, China. He was co-editor and contributing author of the book "The Supranationals" published by Euromoney publications in 1986 Mr. Rines was a contributing author in the 1988 and 1989 editions of "The Guide to International Capital Markets" published by Euromoney Publications.

Tahar Adassy

Mr. Adassy currently serves as the Financial Market Specialist for USAID/Tunisia. A specialist in financial analysis, Mr. Adassy has extensive experience in international business, having worked as a international financial consultant for Shearson Lehman Hutton and E.F. Hutton Co., Inc. He has also served as a private consultant, conducting financial and economic analyses of foreign investment in Canada for several of his clients. Mr. Adassy also directed a private study for the Government of Tunisia on how to activate the Tunisian Stock Exchange in 1981.

Mr. Adassy received a masters degree in corporate law from the Faculty of Law and Economic Sciences (Tunis) and an M.B.A. (major: finance) from H.E.C. University in Montreal.

Hugh de N. Wynne, Jr.

Mr. Wynne is a Senior Vice President in Shearson Lehman Hutton's International Investment Banking Group. He is the head of a team of bankers advising the Republic of Venezuela on the renegotiation of its external debt. Previously an advisor to the Republic of Indonesia, Mr. Wynne has assisted in arranging limited recourse financing for over $3 billion of petroleum financing, gas liquefaction and petrochemical projects in that country. Prior to joining Shearson Lehman Hutton, Mr. Wynne worked at Chase Manhattan Bank, where he assisted Petrobas, YPF, and ENAP, as well as a number of private sector Latin American borrowers, to raise finance in international capital markets.

Mr. Wynne received his B.A. from Harvard University and his M.A. from Stanford University.