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# Financial Sector Development Project

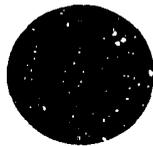
## Activities in Latin America

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**A.I.D./Bureau for Private Enterprise  
Office of Emerging Markets**

and



*Chris Waterhouse*

January 31, 1992

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Belize                      Financial Sector Survey                      \$13,395.90

1) 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.

Bolivia                      Privatization Strategy                      \$107,966.69

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.

Bolivia                      Privatization Seminars and Conference                      \$223,918.00

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.

#### Seminars

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.

#### Conference

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.

#### 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. Proceedings from this roundtable are available

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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.

Preliminary 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 final report in Spanish of the team's findings and analysis was submitted in September 1991 and an English version was prepared in quarter I, 1992.

<u>Bolivia</u>	<u>Financial Sector Assessment</u>	\$189,917.74
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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



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explored 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. The field work took place in July 1991 and the case study is under review for final distribution in quarter II, 1992.

Central America                      CABEI Strategic Planning                      \$12,050.94

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.

2) ←

Guatemala                      Central Bank Strengthening                      \$54,661.95

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.

7) Honduras                      Bank Strengthening Program                      \$128,000.77

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

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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

3) 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

4) 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

5) 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. This activity is complete and a final report in Spanish was submitted in Quarter IV, 1991.

o Stock Exchange Development

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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.

6) Honduras                      Policy Analysis                      \$52,144.00

This quarter, an FSDP team conducted a feasibility study for the establishment of a privately owned development bank on behalf of USAID/Honduras. FSDP consultants presented concerns to Honduran Bank managers on possible sources of long term lending from donor organization having headquarters in Washington D.C. and Central America. The FSDP team provided follow-up technical assistance to the banking community and their clients. *PN 263 7-74* *not yet done*

Nicaragua                      Financial Sector Reform                      \$54,034.62

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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.

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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.

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**Upcoming Engagements**

o 1. Guatemala                      Financial Sector Assessment Studies

FSDP will be providing technical assistance related to the financial sector of Guatemala and will be providing recommendations regarding the policy and regulatory framework. This engagement is scheduled to begin late January 1992.

o 2. Guatemala                      Financial Sector Training

FSDP will provide financial sector training in Guatemala. This engagement will begin this winter.

o 3. Honduras                        Bank Training

As a follow-on to FSDP assistance provided last year, this project will provide the Mission with technical assistance to help initiate the first series of seminars and workshops. This engagement is scheduled to begin in February 1992.

o 4. Honduras                        Capital Market Development

FSDP will provide specialists in the areas of stock market operations and regulations and in the area of open market operations. This engagement is scheduled for early February 1992.

o 5. Nicaragua                        Bank Superintendency

FSDP has identified consultants to assist the new Superintendency of Banks in Nicaragua. This engagement is scheduled for February 1992.

o 6. Nicaragua                        Bank Association Strengthening

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FSDP will assist the bankers association of Nicaragua on the Bank strengthening program.

o Nicaragua                      Insurance and Pension Funds

FSDP will provide assistance to Nicaragua in the areas of Insurance and Pension Funds.

o Bolivia                              Pension Funds

FSDP is conferring with USAID/La Paz regarding the possible establishment of pension funds in Bolivia.

o Central America              Financial Sector Seminar

FSDP is designing a seminar related to financial sector development for the Central American region.