

A.I.D. EVALUATION SUMMARY - PART I

1. BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS.
2. USE LETTER QUALITY TYPE, NOT "DOT MATRIX" TYPE.

IDENTIFICATION DATA

A. Reporting A.I.D. Unit: Mission or AID/W Office <u>AID/PRE/DP</u> (ES# _____)		B. Was Evaluation Scheduled in Current FY Annual Evaluation Plan? Yes <input type="checkbox"/> Skipped <input type="checkbox"/> Ad Hoc <input checked="" type="checkbox"/> Evaluation Plan Submission Date: FY <u>Q</u>	C. Evaluation Timing Interim <input type="checkbox"/> Final <input checked="" type="checkbox"/> Ex Post <input type="checkbox"/> Other <input type="checkbox"/>
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D. Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report.)

Project No.	Project /Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
940-2005	Financial Markets Development	1985	9/88	\$1,920.46	\$1,920.46

ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Director	Name of Officer Responsible for Action	Date Action to be Completed
<p>Action(s) Required</p> <p>Recommendations from the evaluation will be applied in the new Financial Sector Project, which will commence 9/88:</p> <ol style="list-style-type: none"> To more effectively communicate the anticipated benefits of financial markets development, the project will be renamed using a broader term covering the range of PRE objectives. PRE will offer Mission and/or regional level training programs to promote understanding of capital mobilization. PRE will increase efforts to promote and disseminate information regarding financial markets development through issuance of a regular newsletter. PRE will work with selected Missions to develop capital mobilization strategies. 	<p>Russell D. Anderson PRE/PD, Office Director and Jim Dry, Project Officer</p> <p>"</p> <p>"</p>	<p>June 1988 (already completed)</p> <p>FY 89</p> <p>FY 89</p>

(Attach extra sheet if necessary)

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation: (Month) June (Day) (Year) 1988

G. Approvals of Evaluation Summary And Action Decisions:

Name (Typed)	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
	Russell Anderson	-----	Robert Friedline	Michael Unger
Signature	<i>Russell Anderson</i>		<i>Robert Friedline</i>	<i>Michael Unger</i>
Date	8/17/88		8-16-88	8/17/88

ABSTRACT

H. Evaluation Abstract (Do not exceed the space provided)

This evaluation of the PRE Bureau's Financial Markets Development Project was scheduled as the three-year project neared its completion, in order to assess accomplishments and assist in design of a follow-on project. The purpose of the project was to promote the development of financial markets institutions to mobilize domestic capital for productive activities in developing countries. In pursuit of this objective, PRE contracted with Arthur Young and Company to develop and implement projects aimed at assisting selected LDC financial market institutions.

The evaluation found that the project had provided a variety of support activities to A.I.D. Missions, host governments, and indigenous private enterprises in over 20 countries. Among other accomplishments, the project created an awareness of the importance of financial market development, provided assessments of financial systems in selected countries, and offered specific technical assistance to USAID Missions. The Missions generally gave high ratings to the quality of assistance received through visits, reports, and recommendations made by consultants. However, the evaluators concluded that the impact of the project could not be measured at this time, due to the long-term nature of financial market development in less developed economies.

The evaluation found that the major obstacle in the project's evolution was the absence of a cohesive strategy for the overall project. Other difficulties observed were the inability to market the program to Missions and the wide variety of Mission commitment to financial markets development.

The evaluation concludes that it is imperative that a follow-on financial markets project continue to operate within A.I.D., and that this project utilize innovations borrowed from the international business community. The report offers five principal recommendations to be applied in PRE's design of the follow-on financial markets project:

1. Adopt a more descriptive term to identify the program, such as capital mobilization.
2. Offer Mission or regional level training programs.
3. Promote capital mobilization more effectively.
4. Work with selected Missions to develop a capital mobilization strategy.
5. Create an institution to provide focus, visibility, and a long-term commitment to capital mobilization.

COSTS

I. Evaluation Costs

1. Evaluation Team		Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. \$)	Source of Funds
Name	Affiliation			
Donald Shay	The MAC Group	PDC-0001-0-00-	24,194	AID/PRE
Marta Ojhenart	"	8063-00		
2. Mission/Office Professional Staff		3. Borrower/Grantee Professional		
Person-Days (Estimate) _____ 10 _____		Staff Person-Days (Estimate) _____ 3 _____		

A.I.D. EVALUATION SUMMARY - PART II

SUMMARY

J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)
Address the following items:

- | | |
|--|--|
| <ul style="list-style-type: none"> • Purpose of evaluation and methodology used • Purpose of activity(ies) evaluated • Findings and conclusions (relate to questions) | <ul style="list-style-type: none"> • Principal recommendations • Lessons learned |
|--|--|

Mission or Office: AID/PRE/DP	Date This Summary Prepared: August 15, 1988	Title And Date Of Full Evaluation Report: Financial Markets Project Evaluation June 21, 1988
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The Financial Markets Development Project was created by the PRE Bureau in 1985 with the principal objective of promoting the development of financial market institutions to mobilize domestic capital for productive activities in developing countries. In pursuit of this objective, PRE contracted with Arthur Young and Company to develop and implement projects aimed at assisting selected LDC financial market institutions. PRE's contract for \$1,920,460 covered the period through September 30, 1988. An additional \$976,047 was provided by A.I.D. Mission buy-ins to the project, for a total of \$2,896,507.

The purpose of this evaluation was to provide information regarding the project's effectiveness and impact, to assist the Bureau in determining future direction and funding for the project. Timing of the evaluation was intended to support Bureau decisionmaking prior to expiration of the project's contract with Arthur Young and Company (DPE-2005-C-00-5060-00). The evaluation was carried out over a five-week period in April and May 1988 by two consultants from The MAC Group. The team reviewed more than 60 reports produced by the project, as well as PRE and contractor files and cables. The team conducted interviews with A.I.D. personnel involved in the project and with representatives of the project's prime contractor. The evaluators also conducted telephone interviews with nine Missions.

The principal findings and conclusions of the evaluation were the following:

- The Financial Markets Development Project provided a variety of support activities to A.I.D. Missions, host governments, and indigenous private enterprises in over 20 countries.
- The project created an awareness of the importance of financial market development. At the time that PRE initiated the project, Mission interest in and knowledge of the importance of financial markets were minimal. By acting in an advocacy role for financial markets, PRE moved the Missions in a direction they would not likely have taken on their own.
- The quality of the work performed by the contractor and consultants was generally high. In most cases, Missions gave high ratings to the quality of assistance received through visits, reports and recommendations made by consultants. Without exception, the Missions interviewed for the evaluation were laudatory of the responsiveness of PRE and its contractor in providing timely and effective services.
- While the project was very effective at raising consciousness at the Mission level, its long-term impact cannot be measured at this time. In the judgment of the evaluators, financial market development is a long-term undertaking whose impact cannot be measured over the relatively short project life. According to the team, many of the efforts undertaken under the project will yield benefits over the next several years, though as yet they are not readily visible.

The evaluation found that the major obstacle in the project's evolution was the absence of a cohesive strategy for the overall project. As a result, the project became the repository of a group of unrelated country-specific reports and studies which did not build foundations for further development. Other constraints to the project's success were the inability to market the program to the Missions, the wide variety of Mission commitment to financial market development, and duplication of efforts.

The report offers five principal recommendations to PRE to be applied in its design of the follow-on Financial Markets Project:

1. Adopt a more descriptive term to identify the program, such as capital mobilization. The evaluation concludes that "financial markets" is too narrow a term, and does not convey PRE's goals of improving access to capital for faster and greater economic development in A.I.D. countries.
2. Offer Mission or regional level training programs. The report notes that telephone interviews with A.I.D. Mission staff revealed an uneven level of education and expertise in capital mobilization among the staff. The evaluators suggest that PRE establish a training program, to be preceded by a needs assessment of Bureau and Mission staff. A outline for in-country presentations and regional meetings is presented, including marketing, issue identification and technical workshops. The target audience would include Mission staff, host-country governments, and the local business community.
3. Promote capital mobilization more effectively. PRE's advocacy role has been limited due to the lack of travel funds which has constrained PRE staff from visiting the Missions. The evaluation finds that travel to the Missions is critical to stimulate awareness, give PRE the opportunity to review ongoing efforts, and reinforce the importance of capital mobilization to the Missions. The report recommends that PRE heighten its role as information broker by publishing a newsletter to Missions and others concerned to report developments in the field. PRE should also maintain liaison with the IFC, IMF, Institute of International Economics, and other multilateral donor institutions.
4. Work with selected Missions to develop a capital mobilization strategy. The report recommends that PRE coordinate development of three- to five-year strategies that clearly identify the role A.I.D. is to play in capital mobilization. It outlines a number of principal items to be included in a country strategy.
5. Create an institution to provide focus, visibility, and a long-term commitment to capital mobilization. The report notes that this recommendation can be implemented either by creating an organization within A.I.D. with the requisite resources and know-how or by creating an independent, not-for-profit institution similar to the Center for Privatization. In the evaluators' estimation, an "Institute for Capital Mobilization" is the more practical alternative. The report proceeds to outline the purposes, rationale and activities of such an institute.

S U M M A R Y (Continued)

The evaluation report concludes that it is imperative that a follow-on financial markets project continue to operate within A.I.D. It recommends that the project be enhanced through incorporation of innovations borrowed from the international business community, including the worldwide private business sector and multilateral international organizations.

ATTACHMENTS

K. Attachments (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc., from "on-going" evaluation, if relevant to the evaluation report.)

Evaluation of Bureau for Private Enterprise Financial Markets Project

COMMENTS

L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report



XD-AY-087-A
57229

AGENCY FOR INTERNATIONAL DEVELOPMENT

**Evaluation of Bureau of Private
Enterprise
Financial Markets Project**

Contract No. DPE-20005-C-00-5060-00

Prepared By:

Donald Shay
Marta Oyhenart

June 21, 1988

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I. EXECUTIVE SUMMARY

The purpose of this evaluation is to assess the effectiveness and impact of PRE's Financial Markets Project, and to assist the Bureau in determining direction and funding for the future project. It is intended that this evaluation will support Bureau decisionmaking prior to expiration of the project's current contract with Arthur Young and Company (Contract No. DPE-2005-C-00-5060-00) on September 30, 1988.

The evaluation was carried out over a five week period in April and May 1988 by Donald Shay and Marta Oyhenart. The principle objective of the financial markets project was to promote the development of financial market institutions to mobilize domestic capital for productive activities in developing countries. The project provided a variety of support activities to AID missions, host, governments, and indigenous private enterprises in over 20 countries. To evaluate this project the team of Shay and Oyhenart reviewed over sixty reports produced by the project, examined all files and cables, conducted personal interviews with thirty AID personnel involved in some way with the project and conducted telephone interviews with nine missions.

The Financial Markets Project created an awareness of the importance of financial market development, provided assessments of the financial systems in selected countries, and offered specific technical assistance to USAID Missions. The Missions generally gave high ratings to the quality of assistance received through visits, reports and recommendations made by consultants. However, the impact of the Financial Markets Project cannot be measured at this time. The development of financial markets in less developed economies is a long-term proposition. Hence, the benefits of this project will be noticeable in years to come, not in the three-year span covered by this project.

The major obstacle in the evolution of this project was the absence of a cohesive strategy for the overall project as well as specific countries the financial markets project became the repository of a group of unrelated country-specific reports and studies, which did not build foundations for further development.

Other difficulties observed were the inability to market the program to the Missions, the wide variety of Mission commitment to financial markets development, and duplication of efforts.

After an exhaustive review of the reports generated in this project and several interviews, which were conducted by phone with several Missions and personally with AID and other officials residing in Washington, our recommendations are:

1. Adopt a more descriptive term to identify the program, such as *capital mobilization*.
2. Offer Mission or regional level training programs.
3. Promote *capital mobilization* more effectively.
4. Work with selected Missions to develop a capital mobilization strategy.

5. Create an institution to provide focus, visibility and a long-term commitment to capital mobilization.

In conclusion, it is imperative not only that a follow-on program continue to operate within AID, but that it be infused with vitality and innovations borrowed from the entire international business community. A principal part of that community, often forgotten in the bureaucratic process, is the private business sector worldwide. Another important sector are multilateral international organizations. A capital mobilization program within AID can only succeed if there is cooperation with these two sectors.

II. INTRODUCTION

SOURCES

The team conducting the evaluation was headed up by Donald Shay, a former MAC Group Vice President and now an independent consultant on international business matters. Assisting him was Marta Oyhenart, an experienced businessperson who is currently a doctoral student focusing on markets at George Washington University.

In the one-month timeframe allowed, we reviewed more than sixty reports and studies (see Appendices B, C, and D), examined all available files and cables, conducted personal interviews with thirty people directly and indirectly involved in the project as well as telephone interviews with nine Missions. To get additional input, we cabled the Missions involved in this project a series of questions (see Appendix E), but their responses were not received in time to be included in this evaluation. We also prepared a memorandum outlining our preliminary thinking, and held several discussions with PRE staff on future plans of action.

Due to the limited time, this evaluation was prepared without conducting personal visits to the Missions. While field interviews held in the country environment would have allowed a more complete assessment, the telephone discussions with eight Missions provided enough basic information on which to make an evaluation and prepare recommendations. It should be recognized, however, that since only the private sector officer or his delegate was interviewed in each Mission, we were not able to obtain the richness of views that a field visit would have yielded. At the same time, without visiting the Missions, our ability to fully gauge the substantive merits of the various studies was limited. We do not believe, however, this materially affected our findings or recommendations.

Throughout this evaluation project, in addition to meeting the terms of the scope of work, we have sought to: (1) respond to the needs of PRE in their project design thinking, and (2) avail ourselves of information sources outside AID in order to enrich our discussion and place our recommendations in the context of the needs and resources of the entire international community.

We want to thank the Financial Markets Project Officer, all the PRE officers, the Missions interviewed by telephone, the prime contractor and its representatives, as well as the outside experts, all of whom gave us their time and patience in answering questions and providing all the materials that made this study possible. We hope we have captured the essence of the financial markets project and presented constructive criticism on which to advance the purpose of capital mobilization and economic development.

III. EVALUATION

A. SUMMARY OF FINDINGS

The Financial Markets Project Created An Awareness of the Importance of Financial Market Development

When PRE initiated the financial markets project two and a half years ago, Mission interest and knowledge of the importance of financial markets were minimal. One of the most important benefits of this project to date is the Missions' increased level of interest in financial markets and their role in development. To date, over 20 Missions have accessed the project and used it to increase their own awareness and that of host governments of financial markets. By acting in an advocacy role for financial markets, PRE has moved the Missions in a direction they would not likely have taken on their own. The weight and substance of the various assessments and studies confirm the Missions' heightened awareness of financial markets, an awareness that can now be directed and focused.

The Quality of the Work Performed by the Contractor and Consultants Was Generally High

The majority of studies undertaken through this project were generally well received by the Missions, as far as we could tell without conducting Mission visits. Particular studies may have had some areas of weakness or may not have fully covered all relevant topics, but overall, the studies were thorough and well substantiated. In particular, the Reilly study for Indonesia, the Regional Office for Central America and Panama (ROCAP) study, and several of the Ferris studies were insightful and pragmatic. Others were less helpful. For example, the sixteen "assessments" were really descriptive pieces that duplicated material readily available elsewhere. The Interest Rate Study was an interesting academic exercise but did not contribute to existing knowledge or improve current practices.

The Missions Generally Had Very Positive Ratings of the Consultants Supplied by the Contractor

The Missions' reviews of consultants ranged from "raves" to very positive comments on both their caliber and usefulness. A minority of Missions reported that, on a few occasions, one or more of the consultants supplied were less than adequate.

Missions Reported that PRE and the Financial Markets Contractors Were Very Responsive

Without exception, the Missions interviewed for this evaluation were laudatory of the responsiveness of PRE and its contractor in providing timely and effective services. Some of the Missions noted that when problems arose, the contractor responded quickly to resolve them.

B. AREAS OF OPPORTUNITY

While the Project Was Very Effective At Raising Consciousness At the Mission Level, Its Long-Term Impact Cannot Be Measured At This Time

Given that financial market development is a long-term undertaking whose impact cannot be measured after a two and a half year period, it is too early to judge the lasting results of the initial group of assessments and studies prepared under this project. Many of the efforts undertaken under this project will yield benefits over the next several years but these are not yet readily visible. Even with these expected benefits, however, the spreading of limited resources over a large number of countries remains a concern. To increase the likelihood of achieving a more enduring impact, PRE should target its future efforts and resources on select countries and areas of opportunity. The checklist developed for this purpose should be a useful tool.

There Was No Cohesive Strategy For the Program Overall or Within a Particular Country

The assistance program did not evolve in a step-by-step progression. In most instances, either country assessments were not followed by plans of action or technical assistance was issue-specific, with no relationship to other efforts. Until this evaluation was undertaken, the Missions were not even asked for feedback about the impact of the technical assistance received through PRE.

PRE became the repository of a group of unrelated country-specific reports and studies, which—while they may have responded to the Mission that requested them—did not allow PRE to build the foundations for further development.

In this light, the assistance given by the Financial Markets Project appears to have been diluted or folded into other programs. And, although this program has fulfilled its purpose of lending technical assistance to support other AID programs, if it is to continue to operate successfully, the Financial Market Project must adopt a discrete strategy, accompanied by goals and objectives that can be implemented realistically.

Furthermore, by not actively disseminating education and providing training related to financial markets, PRE's work in some cases complemented, in others, duplicated, the activities of other sectors of AID and international institutions. Again, to be effective in the long term, this program must disseminate information and education that will help coordinate other programs in the field of capital mobilization.

The Financial Markets Project Was Not Effectively Marketed to the Missions

Although the financial markets project did achieve PRE's overall objective of increasing awareness, more could have been accomplished had there been an outreach effort. Unfortunately, PRE staff were not able to access travel funds to visit the Missions as often as needed, which according to several of the Missions, would have been very helpful in both promoting the importance of financial markets and increasing their understanding of how this contract could be used for that purpose. In fact, during our evaluation interviews, two of the Missions asked

us how they could use the contract and if it could be used for specific projects they had in mind.

Mission Commitment to Financial Markets Varies Widely

Some Missions are more committed to financial market development than others. To obtain the best return for PRE funds and to leverage those funds, PRE should ensure Mission commitment through buy-in to the contract, not necessarily at the initial stage (when PRE can provide funds for planning what should be done), but before proceeding with any ongoing projects.

Another problem evident in most discussions concerning Mission commitment is the perception held by traditional AID staff that development of financial markets is not consistent with basic human needs. To respond to their perception, the social benefits of business development must be emphasized. We suggest the following courses of action (which are discussed later in this paper) as one means of response:

- Highlight capital markets as the best vehicle to direct much needed international capital flows from industrialized nations to developing nations. Counterbalancing the over-emphasis placed in the past on the role of capital markets for the efficient allocation of resources may facilitate the acceptance of PRE programs by all AID staff.
- Change the name of the program to *Capital Mobilization*, a generic name that describes the transfer of financial resources worldwide.

There Was Considerable Duplication of Efforts

Several of the country assessments, and even some of the studies on specific countries, essentially duplicated those published by other international organizations which have been active in the same endeavors for many years, namely the World Bank, IFC, IMF, and others. A significant amount of time and money would have been saved for other purposes had the project been able to build upon existing knowledge rather than duplicate it.

Minor Administrative Difficulties Arose On Occasion

In one instance, a Mission questioned whether or not the prime contractor was playing a significant enough leadership and management role in the work being undertaken. We noted that much of the work being performed was provided by consultants who were not full-time employees of the contractor, and, in several of those instances, the contractor did not provide a full-time manager. We believe that this led to a loss of quality control and accountability. On one occasion, one Mission reported, however, that when problems or issues arose, the prime contractor did an excellent job of stepping in and addressing their concerns.

C. EVALUATION QUESTIONS

This section covers the specific questions asked in the scope of work, which served as the framework on which we focused the research methodology. Other relevant issues not covered by these questions are discussed in subsequent sections of this report.

1. Has the Project Provided Assessments of Existing Financial Markets In Selected LDCs?

Numerous assessments were prepared by the contractor. A complete list is provided in the Appendix. Most studies went beyond assessing local financial markets and included recommendations for AID and/or host country action.

In addition, the contractor provided a *Summary of Financial Markets Survey* for each of sixteen countries, using information from secondary sources such as the IMF, World Bank, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the United Nations, and other relevant sources. These descriptive summaries contain only basic information and serve as an overview of macro-economic conditions and the structure of the financial system. They contain no analysis.

2. Has It Determined The Types of Institutions Within These Financial Markets Upon Which AID Should Concentrate Its Projects?

Whenever it was a study objective, institutions were identified in which changes should be encouraged. The studies also offered the foundation, and sometimes guidelines, for the AID Mission to initiate and maintain a dialogue with the appropriate institutions. For example, the *Central American Capital Markets Study* was particularly strong in its recommendations for project assistance to several central banks, DFC's and local Bolsas.

Another example is *Bolivia Financial Sector Assessment—August 1986* by Munson and Ameller, which lists financial sector priorities and offers a specific course of action for AID to help establish a Fund Channeling Unit to monitor external project financing. The paper meticulously links strategy and implementation through the banking institutions that should be targeted.

Private Insurance Sector Report: Ecuador—July 1986, prepared by two insurance executives, Reinmuth and Lanza, is a specific example of institutions in need of regulatory reform where AID could target its assistance.

Another example, the Reilly study of Indonesian Financial Markets was exhaustive in its assessment of the types of institutions that AID should include in its projects.

All studies were generally very thorough in their identification of various institutions involved in financial markets.

3. Has the Project Designed Mechanisms and Program Strategies for Inclusion In AID-Funded Programs Through Which the Identified Institutions Can Be Fostered?

To varying degrees, all the studies prepared under this contract made specific recommendations as to how to proceed with the design of a program strategy and, in some cases, a plan of action. However, the project per se could not mandate the inclusion of specific mechanisms and strategies into Mission programs.

Given AID's organizational framework—where program initiatives rest with the Missions—the implementation of recommendations and their inclusion in AID programs is the prerogative of the Missions. Once a study is completed and recommendations are made, there is no guarantee that the Mission will adopt and implement the recommendations.

The two studies that were most thorough in designing mechanisms and program strategies were the *Central American Capital Markets Study* and the *Reilly Memorandum on Policy for Capital Market Development in Indonesia*.

A more elemental-level study was *Typical Operation—The Forward Foreign Exchange Market in Gambia—April 1987* by Bjelke, which explains the operation of the forward market and includes numerical examples. Although it is a useful guide for the uninitiated in this type of financial operation, it does not investigate the foreign exchange transactions currently taking place in Gambia, whether unhedged or hedged—and conducted by an international bank.

Generally, the assessments and studies identified numerous opportunities and needs that would effectively stimulate financial markets. In some instances, the studies included recommendations on specific actions that AID could undertake. In other instances, however, there were lost opportunities to provide practical and useful advice. For example, *Amman Financial Markets, Mergers, Acquisitions, and Tender Offers, April 1987*, by Sommer, is a review of U.S. and Jordanian laws, regulations, and accounting practices, but gives little insight into the crucial financial issue of valuation of a firm by private parties, of which there is an extensive body of empirical research and practical applications.

Another example is *Interest Rate Controls and Financial Repression in Developing Countries*, which reviews a well-known theory that interest rates and other controls stifle economic growth, but offers limited practical application. On the other hand, *Kenya: An Action Plan for Capital Market Development and Capital Mobilization—April 1987* by Ferris, gives specific guidelines to design a plan of action which in time will include in-depth technical assistance.

4. Has It Examined LDC Policies, Procedures, Laws, Regulations and Practices Regarding Financial Markets to Determine How They May Inhibit or Stimulate Their Development?

In differing degrees of detail, all studies examined policies, procedures, laws, and regulations. One of the most thorough in this regard is *Memorandum on Policy for Capital Market Development in Indonesia*, by T. Reilly, a well-known international lawyer, who after making a comprehensive examination of laws and regulations in Indonesia, proposed seventy-seven different recommendations to change financial systems in Indonesia. Although this is an excellent report—and the Mission stated that it is being used as the regulatory guidelines to design a financial market in

Indonesia—one of the consultants interviewed suggested that it would have been more useful to rank recommendations by their probability of being accomplished; otherwise their complexity could discourage application. Nonetheless, the Reilly study could be summarized into a useful checklist for use in regulatory overhauls in other countries.

Another example is *A Study of the Financial System of Belize* by Shoraka, which recommends the reorientation of liability management by commercial banks and devotes a major portion of the analysis to laws and regulations governing financial institutions.

5. Has It Recommended *Generic and Specific Guidelines to Be Used By PRE and Missions In the Assistance Effort?*

Each of the major assessments did include *specific* guidelines for how PRE and the Missions could proceed.

A problem arose, however, from the notable lack of *generic* guidelines for the assessments themselves. As a result, they varied tremendously in range and depth. For example, several studies by George Ferris focused on a few immediate issues and recommendations, while others, such as the Reilly study for Indonesia, were exhaustive in their analysis and recommendations.

Although a difference of range and depth of assessments served specific purposes, it would have been useful if the contractor had played a stronger role in developing and adhering to a common set of guidelines for how assessments were to be conducted and presented. This uniformity of reporting would have made it easier to compare economic and regulatory conditions between countries.

6. Have the *Assessments, Strategies and Recommendations Completed as Described Above Proven Useful to PRE, Missions, and/or Host-Country Governments?*

The Missions generally found the various studies to be quite helpful, although the majority pointed out that their real utility is difficult to gauge in the short run.

Some of the studies have been categorized by the Missions as *seed* and others as *gap* assistance. An example of *seed* assistance were the several technical assistance projects sponsored in Indonesia, which the Mission has now fully incorporated and extended on a buy-in basis.

A clear example of *gap* assistance is *Development of Administrative and Control Procedures for a Local Currency Loan Guaranty Mechanism for Small and Medium Enterprises, February 1988*, by Lack. Both the Mission and the appropriate officer in the PRE Investment Office commended this work as much needed technical assistance to support a major revolving fund project. This is one of the technical assistance programs designed in tandem with other PRE/Investments Office projects.

On the other hand, *Micro-Credit: A Financial Intermediary for the Informal Sector—November 1986*, by Jeffrey Ashe, is the design of “a commercially viable ‘generic’ credit intermediary for developing countries that would reach significant numbers of informal sector micro-entrepreneurs,” much like the Grameen Rural

Bank in Bangladesh. To our knowledge, this paper has not been evaluated by sections of PRE involved in this credit mechanism.

7. Has the Contractor Achieved a Satisfactory Match Between Requested Tasks and Consultant Skills?

All consultants employed have impressive credentials in their respective fields. There is evidence that the contractor assigned specialized tasks to experts in those fields. More difficult than matching tasks to skills, however, was the process of scheduling visits when the consultants were available and the Missions were prepared to receive them.

The prime contractor was generally applauded for attempting to be responsive. However, some of the Missions reported mixed reviews on the caliber of consultants supplied to them. While the majority of Missions were generally satisfied with the appropriateness of consultants assigned, one reported that, of four consultants, two were less than adequate to the task. Several Missions, however, were satisfied with the type and quality of consultant made available, as evidenced by comments such as "top notch," "high quality," and "very pleased with their work." One Mission responded that the consultant had performed beyond its expectations by establishing a relationship with high government officials who could not have been reached by the Mission directly.

Two Missions noted administrative difficulties. In one instance, the Mission reported that the consultants proposed in the original RFP, while highly desirable from the Mission point of view, were not available. Arthur Young reportedly asked the Mission to nominate candidates (since they could not access acceptable consultants in the necessary time) who would be acceptable to them. The Mission identified appropriate consultants, who Arthur Young then contracted. According to Arthur Young, since none of several candidates proposed were acceptable to the Mission, in an attempt to be fully responsive, they asked the Mission to propose contractors who would be acceptable.

Another Mission indicated time slippage difficulties, but indicated they were not onerous.

8. Has the Contractor Completed Tasks In Addition to Those Specified In the Original Contract Scope of Work, In Response to PRE Requests? If So Describe.

Other than technical assistance requested by Missions, the contractor prepared the following reports:

- *A Concept for Reorientation of Banking Professionals in Developing Countries—July 1986*, by Shoraka. On PRE's initiative, a contractor, Jalil Shoraka, was asked to prepare a concept paper addressing the needs of LDC bank officials. The key recommendation was to form an organization to conduct seminars and conferences for the banking industry in Caribbean countries. (This initiative to disseminate education is recommended, in one way or another, by most of the project consultants. We have incorporated it into our own recommendations for future action.)

- *Venture Capital Process—January 1987*, a summary of capital formation using risk capital. This is a generic paper explaining mechanisms for attracting risk capital in industrialized countries. It does not, however, address the numerous equity investment mechanisms already in existence in developing countries. Nor does it discuss the excellent potential of this type of equity investment for portfolio diversification.
- *Financial Markets Database—January 1988*. This study was undertaken at the request of PPC. Due to a variety of technical flaws and problems with information availability, the study was inconclusive.

Statistical analysis requires that before any numerical analysis is undertaken, some important preparatory steps must be completed, such as clearly stating the research questions, designing a framework, specifying the methodology, and describing the expected research outcome. This routine preliminary work could have averted many of the misunderstandings that plagued the database project. The results of this project are disappointing for the following reasons:

1. The Office of Policy Planning and Coordination, which requested an analysis of the feasibility of classifying countries in terms of the level of development of their financial systems, did not have its objectives met. The contractor did not receive or seek specific enough guidelines before proceeding with the research.
2. The scope of the study is too ambitious and the purpose is not focused, therefore it is difficult to translate it into a testable statistical model. The stated purpose was "to provide AID with a method that can be used to identify the level of sophistication of financial markets in LDCs, and the structural changes necessary to increase the viability of the financial market in specific countries." Statistics seldom provide unique solutions; rather they furnish tools to arrive at better decisions. In this case, a battery of statistical tests ranging from exploratory (discriminant, cluster or principal factor analysis) to multivariate analyses (general linear model) would have been in order.
3. There was no conceptual model on which to base the statistical analysis. That is, there was no basic explanation of how dependent and independent variables were assumed to be associated with each other. As a result, there was no framework against which to interpret the statistical findings.
4. There was no clear operationalization of variables. That is, there was no description of these variables being valid measures of the concepts in the model.
5. There was no stated hypothesis to be tested. Statistical analysis of this kind involves a process of falsification which requires the statement, a priori, of a null hypothesis and a level of significance.

6. Presentation of the findings confuse descriptive and inferential statistics. For example, the statement, “. . . the regression line was horizontal, indicating the lack of correlation between the particular financial variable and the level of per capita income” is not substantiated by the probability that a larger F statistic, on repeated sampling, will be found with very high frequency (above a predetermined alpha level) in a population where the null is true. If that is the case, the null hypothesis that $\rho=0$ cannot be rejected and the quoted statement is true. While this technical language may be obscure to the non-statistician, the underlying analysis must be rigorous, otherwise the findings are worthless.

These comments are not intended to discourage further statistical analysis. On the contrary, this analysis is essential in advanced financial practice. The data base should be maintained current for future studies and probably merged with the IFC emerging markets data base to monitor those markets and be better prepared to assist in their continued development.

The following studies were also prepared and are discussed elsewhere:

- *Micro Credit: A Financial Intermediary for the Informal Sector, November 1986*, by J. Ashe.
- *Interest Rate Controls and Financial Repression in Developing Countries—February 1987*.

9. Has the PRE Bureau Marketed the Project Effectively?

We would define *marketing* as a process of communication (i.e., promotional activities geared toward the continuous dissemination of information to all people involved, directly and indirectly, and those *potentially* interested in the project). An important part of marketing is to ensure that the audience first becomes *aware*, then becomes *interested*, and finally takes *action*, in this case, on the program offered by the PRE Bureau. In this context, the project was not marketed as effectively as it could have been. PRE certainly did not lack the interest or willingness to market the project more effectively, but prevailing circumstances (outlined below) did not allow the PRE staff to do so.

One Mission, for example, commented that “we got an initial long cable, then nothing.” Several others indicated a lack of clear communication about the possible uses of the contract. We surmise that the marketing difficulties arose because of a number of reasons, including:

- **Structural organization of AID.** Since initiatives generally originated with the Missions, it was difficult for PRE to make an aggressive attempt to market a new program in a non-traditional field. If PRE had been able to take the initiative to approach each Mission individually and personally, the Missions might have been more amenable to accepting a structured capital mobilization program. Rather, Missions were placed in the position of decisionmakers and asked to request technical assistance when, in some instances, they were not familiar with the field or the scope of the contract.

- **Resources allocated to the program.** Mission staffs lacked sufficient time needed to devote to a new area of endeavor that they are unfamiliar with. In addition, funds were not available to send PRE representatives to meet personally with the Mission and host governments. Consequently, the Missions may have accepted PRE's offer of free technical assistance too quickly, without understanding its purpose.
- **Conviction about the merits of the program.** Although it is difficult to gauge from the limited Mission interviews, there is anecdotal evidence that some Mission staff are not convinced that capital mobilization, of which financial markets is an important part, is a basis for economic growth. This underlying doubt may stem from the fact that traditionally the majority of AID staff are not involved in private finance and business matters.

10. In What Ways Does the Project *Overlap* With Other Bureau Activities and Point to New Areas for PRE Involvement?

There is some evidence of overlap of project activities, not only within the Bureau, but with outside organizations. In some cases, this is desirable because, as one Mission pointed out, it is advantageous to get more than one point of view. In other instances, the duplication results in confusion. For example, PRE and the contractor's files showed that the Mission in Manila was only minimally involved in financial market development and that only one technical study concerning technology transfer had been done on the Philippines. In our telephone interview, we learned that the situation is quite different.

First, the Mission did not originate the request for the study, which proved to be of little value to the Mission. Second, the Mission had requested a financial markets assessment, sponsored by the Bureau for Asia and Near East, which at first was rejected by the Aquino government, but which is now serving as the framework for a conference on capital markets taking place in Manila the end of May 1988, for which PRE is providing a speaker. There may be more potential for financial market development in the Philippines than expected originally.

Another example is the development finance seminars taking place in Washington on May 16-18, sponsored by the Bureau for Latin America and the Caribbean (LAC). This is an example where PRE could have taken the opportunity to become more actively involved in training.

The overlap of time and effort occurs not only within the Bureau and AID but with outside organizations as well. Several of the assessments done under this project duplicate voluminous information publicly available from the World Bank, the IMF, IFC, and others.

Similarly, some overlap occurs in the field. One consultant reported that in the country where he was working, a number of development finance institutions were studying similar projects without one having knowledge of the other. Coordination among international development finance institutions could lower costs and improve efficiency, especially with respect to basic economic and regulatory research.

More serious than duplication of effort is the lack of coordination, which in the future might cause loss of business opportunities. For example, the involvement of PRE's Investments Office in the design of new instruments related to bank debt securitization could stimulate capital markets. Also merchandise trade could be tied to financial market development through the transaction of financial instruments such as bankers' acceptances. In the absence of a well established local capital market, privatization could be encouraged through the issuance of American Depository Receipts, which allow local stocks to be traded in international markets. However, these actions can take place only if there is continued exchange of information and coordination of efforts.

11. Is Work Completed Under the Project Unique and/or Innovative?

The body of work prepared under this contract cannot be classified as unique or innovative in the context of international economics. However, the project need not have those qualifications in order to be effective and significant. On the contrary, it is advantageous to tread on proven ground where past mistakes can be avoided and new directions can be taken with increased certainty.

The question that should be asked is not whether the project was unique, but rather whether it made a contribution to the existing efforts in the area of international capital mobilization. In this context, the answer is yes. The project contributed to the awareness within AID and the Missions of the involvement of the private sector in economic development and the role of financial markets in stimulating private sector growth.

12. Was Mobilization of Financial Markets a Timely and Appropriate Goal In the Countries Included In Project Activities? If Not, Suggest Alternative Interventions.

Capital mobilization occurs in various way, one of them through financial markets. Capital mobilization in an economy is the transfer of financial assets from surplus (saving) units to deficit (investment) units. Streamlining this process should be the primary goal of any country, because the greater the efficiency of capital transfers, the greater the economic development will be.

An effective conduit to facilitate capital mobilization is financial markets. However, several people interviewed felt that in some countries the goal should be less ambitious than the establishment of a capital market because the local economy was not sufficiently advanced to support or necessitate a structured capital market.

As was well stated by one of the consultants, financial markets cannot be legislated. First, the savings capacity and existing investment pattern in a country should be assessed. Second, the laws and regulations that channel domestic savings to unproductive investments should be changed. Third, the mechanism (intermediaries) that makes the financial market between savers and investors should be established.

In several instances, project consultants recommended against further efforts to establish a capital market. For example, the Eveleth Guatemala report recommended that AID not support the immediate establishment of a stock market in Guatemala, but rather focus attention on establishing mutual funds sponsored by banks.

Another fruitless effort is the case of Bolivia. We had the opportunity to interview in Washington the Executive Secretary of the Securities Exchange Commission of Bolivia and learned that although the Commission has been in existence for a few years, there is no exchange. There may be other instances where national pride and pressure to emulate industrialized countries led to these fiascoes. It is essential that requests for assistance to develop a financial market be carefully evaluated by PRE before committing funds and effort. The pre-feasibility visits with LDC officials, suggested in the contractor's proposal, will be helpful in deciding whether the assistance is warranted. Capital mobilization is always an appropriate goal. But any strategy to assist in its development must conform realistically to the level of financial sophistication of each country.

13. Briefly Describe Alternative Approaches and Mechanisms for Financial Markets Development Which AID Might Employ, and Review Their Costs.

For a complete list of recommendations for future AID involvement see the section on *Recommendations for New Directions*.

In general, a key contribution that AID can make toward capital market development is to disseminate information to all parties involved and elicit their commitment to a free market mechanism that will bring sustained prosperity to developing countries, a role PRE has adopted. Another important contribution is to coordinate technical assistance for the advancement of financial institutions and the creation of financial instruments that will further facilitate the flow of capital and trade among nations.

14. Did the Contractor Deliver the Services and Individuals Requested In PRE's RFP and Identified In the Contractor's Proposal?

Interestingly, the Arthur Young proposal indicated an approach and set of guidelines for the financial markets project that was well thought out, and in our opinion, very much on target. The proposed approach contained steps that are consistent with intensive marketing of the project and achieving practical, concrete results. One example is Task 3.0 (page II-35), *Conduct Pre-Feasibility visits with LDC Officials*. Unfortunately, few of these visits took place, and then only after the project had been in existence for some time. Another example is Task 7.1 (5) (page II-6 and 7) *Emphasis on Achieving Practical Results*. Clearly the intention was not to produce more feasibility studies but to achieve practical, concrete improvements in the functioning of capital markets overseas. Few improvements materialized, probably because not enough time has elapsed for changes to take place or because initiatives were stunted by the bureaucratic process.

As discussed elsewhere, the contractor generally received very favorable comments from the Missions regarding the services and individuals provided.

15. Is There Evidence That Mechanisms to Foster Financial Market Growth, Recommended By the Project, Have Been Incorporated Into AID Projects?

The results of this project are gradually finding their way into Mission projects. Two Missions indicated that while it still is too early to see first results, ideas and recommendations generated by the studies are being included in several upcoming projects (e.g. debt/equity swaps and investment banking). A third Mission reported that the contract provided direct technical assistance to the local stock exchange.

Another Mission reported that the mechanism for debt/equity swap designed by one consultant is now being incorporated into the host country's regulations for such transactions.

Most important, the contract succeeded in raising Mission interest in and awareness of the role of capital markets. And although the extent to which mechanisms will be adopted in AID projects is unclear at this time, evidence points to a more substantial movement toward this in the future.

16. Is There Evidence of Awareness and/or Acceptance By Host-Country Institutions of Conclusions and Recommendations Reached By Project Consultants? Has There Been Any Incorporation of Such Recommendations In Host-Country Policies or Planning?

There has been a marked increase in awareness on the part of host-country institutions, with a similar, but less substantial, increase in acceptance of recommendations. As one Mission noted, the project stimulated a much greater appreciation of financial markets on the part of the government, but that acceptance and implementation of recommendations can be a slow and tedious process.

Another Mission pointed out that the local stock exchange had modified some practices substantially along the lines suggested by the consultant, with very positive results.

A third felt that the most important contribution had been the development of a consensus by the local private sector as to what reforms were required to carry out financial market development and that this consensus formed the basis of the private sector's dialogue with the government.

17. Is There Evidence of *Impact* On Mission/Host-Country *Policy Dialogue* Resulting From Work Under the Project?

Policy dialogue has been an area of strength. In virtually every project a contribution was made to policy dialogue, to one degree or another.

One exception was a Mission that reported that despite the active involvement of the Private Sector Officer and several visits by consultants, all efforts to promote financial regulatory changes had been fruitless. However, as a rule, the Missions had been able to use the studies generated by this project to initiate meaningful policy dialogues. Some Missions met with immediate success, others reported slow but encouraging progress.

18. Were There Structural or Procedural *Obstacles* Impeding the Impact of the Project? If So, Describe.

Several impediments affected the project, such as:

- **Travel Limitations On PRE Staff.** These limitations adversely affected PRE's ability to communicate the purpose of the project, diagnose Mission needs, or, in some cases, make better decisions regarding specific services to be provided. One consultant even suggested that travel should be extended to other developing countries to learn from their experiences and transfer that knowledge to countries in earlier stages of financial development.
- **Laxity of Management.** Two Missions felt that the prime contractor, Arthur Young, did not play a strong enough management role in directing the work of its consultants. One reported, for example, that the analytic underpinnings of a specific report were initially inadequate. After pointing this out to Arthur Young, the Arthur Young manager in charge of the entire financial markets project stepped in and produced the quality of analysis required by the Mission. This problem may have not occurred if Arthur Young had been able to provide a full-time employee, with the requisite knowledge from among its own consultants.
- **Unavailability of Consultants.** In strong contrast with traditional AID programs such as health, population, agriculture, and education, where there is a large pool of AID-experienced consultants available for AID to tap on short notice, in the financial services industry well-qualified consultants are more scarce and command higher fees than other professionals. Given the stipend limitations under which AID operates and the general lack of awareness of AID by financial services professionals, the contractor will continue to have difficulty meeting the professional requirements of AID contracts related to financial services.

Financial markets constitute a complex field with numerous specialized areas, of which few individuals have complete knowledge or expertise. Since the Missions cannot have a full staff of financial specialists, this imposes an extraordinary burden on PRE and the contractor to be able to put together teams of experts who collectively cover all aspects of financial markets. As mentioned above, AID is at a severe disadvantage when competing in the open market for these specialists.

19. Is There Evidence to Suggest That the Positive Effects of the Project, Identified Under *Impact* Above, Are Likely to Be Sustained After AID Funding Has Ended?

The evidence of sustainability is ephemeral at best. In two or three Missions, the initial groundwork undertaken through this project has led to very strong Mission commitment to financial market development. For example, one of the Missions is undertaking a multi-year, multi-million dollar financial markets program.

While it appears certain that there will be some sustained effort, there is no credible evidence that this will be widespread or enduring. This is especially true when the technical assistance given by PRE is closely tied to the revolving fund loan guarantee, a program that by necessity will end when U.S. guarantees cease to exist.

IV. RECOMMENDATIONS FOR FUTURE DIRECTION

The financial markets project has accomplished a great deal in its two and a half year history, providing a wide variety of financial market services to Missions in more than thirty countries. This period should be viewed as one of experimentation, education, and consciousness-raising on the importance and benefit of capital mobilization in developing countries. Building on this experience, we believe it is now time to focus PRE's energies and resources in this area. The following recommendations should help serve that purpose.

1. Adopt a More Descriptive Term: Capital Mobilization

To more effectively communicate the anticipated benefit of financial market development, PRE should adopt a term that better describes its objectives. *Financial markets* is too narrow a term, and does not convey PRE's goals of improving access to capital for faster and greater economic development in AID countries.

A more descriptive term is *capital mobilization*, which includes all aspects of financing enterprises. Furthermore, it does not imply the immediate creation of a structured financial market (some countries are not able to make that leap), but rather focuses on intended results.

Most important, *capital mobilization* better expresses AID's overall goals of improving countries' general well-being and strengthening democratic systems.

2. Offer Mission or Regional Level Training Programs

PRE has gathered a significant amount of information on capital mobilization. Other AID bureaus, such as S&T, PPC, and the regional bureaus, are also substantial repositories of information. Yet the experience with, awareness of, and interest in capital mobilization at the Mission level is, at best, mixed.

Our telephone interviews with AID Mission staff revealed an uneven level of education and expertise in capital mobilization among the staff. Even those with backgrounds in private sector financial institutions profess a need for better understanding capital mobilization, and more important, what specific projects to undertake.

The first step in any program to offer training would be to conduct a thorough needs assessment of the Bureau and Mission staff. This assessment will enable PRE to identify which areas and specific issues such programs should address. A hypothetical example of such a program follows.

In-Country Presentations and Training (2 days)

<u>Purpose:</u>	Share information
	Market the program (PRE/contractor services)
	Cultivate relationships
	Maintain personal contact and visibility
	Identify issues, areas for technical assistance

Location: Host country
Audience: Mission staff
Host government
Local business community

Regional Meetings and Technical Training (2–3 days)

Purpose: Conduct symposia
Exchange ideas
Encourage regional collaboration
Offer technical workshops

Location: Regional
Audience: Mission staff
Host government
Local businesses

3. More Effectively Promote Capital Mobilization

PRE has properly adopted an advocacy role, espousing the importance of financial markets in development. Unfortunately, this role has been limited due to the lack of travel funds which has constrained PRE staff from visiting the Missions. Travel to the Missions is critical for several reasons. Not only would it help stimulate awareness and give PRE the opportunity to review ongoing efforts and make suggestions on how its contract might be of use to the Missions, it would help reinforce the importance of capital mobilization to the Missions. (The majority of the Missions interviewed noted PRE's inability to visit, and two were uncertain about what kinds of work could be done under the contract.) Some Missions have even suggested the need for a regional PRE person (representing all PRE programs) whom they could call on directly for assistance.

In addition to its outreach effort, PRE should heighten its role as information broker by:

- Publishing a newsletter to Missions and others concerned, announcing developments in other organizations, reporting developments in USAID and US private sector, and, most important, reporting developments in host countries regarding work by Missions and progress by host governments and businesses
- Following up on requests prompted by the newsletter
- Soliciting the contribution of materials
- Maintaining an ongoing informal liaison with IFC's Capital Markets Department, the IMF, Institute of International Economics, Institute of International Finance, SEC, and other multi-lateral donor institutions.

4. Work With Selected Missions to Develop a Capital Mobilization Strategy

PRE has already taken initial steps in this direction, such as developing and applying criteria for selecting target countries. We believe that this is an important step, given PRE's limited resources, and the fact that capital mobilization is by nature a long-term undertaking which requires a strong commitment by both PRE and the Missions. Furthermore, capital mobilization can be complex. In view of the wide variety of activities PRE might undertake and the diverse number of institutions involved, both domestic and foreign, choices must be made to gain the most benefit from limited resources.

We recommend that PRE work with each selected Mission and its Regional Bureau to coordinate a three- to five-year strategy that clearly identifies the role AID is to play in capital mobilization. We also suggest that, while PRE should finance the preparation of this strategy, the action plans arising from the strategy demonstrate clear Mission commitment in the form of at least fifty percent buy-in and the dedication of at least one full-time Mission staff to the capital mobilization effort. Much of the work PRE has financed over the past two years, such as the detailed country assessments, can serve as the foundation and starting point for strategy development.

While it is beyond the scope of this evaluation to enumerate all aspects of strategy formulation, we would suggest a number of principal requirements. (Several of these items are already covered by reports on some countries.) The strategy should:

- Begin with an evaluation of the capital needs and uses of all productive sectors of the economy and describe the extent to which these needs are now met.
- Be based on an analysis of the political and economic environment; the legislative, institutional, and regulatory framework; interest rate, exchange rate, taxation, institutional and foreign participation policies (including a thorough examination of the motivations underlying existing behavior and practices).
- Incorporate a recognition of the broad array of AID projects, such as investments, rural credit, micro-enterprises, privatization, etc.
- Take into account the initiatives of other institutions such as the World Bank, IFC, and IMF.
- Recognize AID's strengths and weaknesses and build on areas where AID has comparative advantage.
- Include all elements pertaining to capital mobilization, including recognition of the role of the informal or undocumented sector.
- Conclude with an annual plan identifying specific steps (in priority order) the Mission and PRE will undertake, and the amount of resources each party will devote to this effort.

5. Create an Institution to Provide Focus, Visibility, and a Long-Term Commitment to Capital Mobilization

This recommendation can be implemented in either of two ways: by creating an organization within AID with the requisite resources and know-how or by creating an independent, not-for-profit institution similar to the Center for Privatization. Given personnel constraints imposed on AID, an *Institute for Capital Mobilization* is the more practical alternative.

The overall objective of such an institute would be to facilitate the mobilization of capital—domestic and foreign—in developing countries. Among its specific activities would be the following:

- **Disseminate information and education** for the purpose of developing relationships and maintaining a dialogue with all sectors of AID, the Missions, other agencies, host governments, embassies, international organizations, and, most important, the private sector.
- **Sponsor research and technical assistance** for the purpose of advancing knowledge on general conditions and specific issues related to capital mobilization and, ultimately, to the development of sound financial systems.
- **Maintain a communications network** for the purpose of enhancing the dialogue noted above and leveraging the impact of the program by tapping the resources of government, private, and non-profit organizations which are also interested in capital mobilization in developing countries.

The Rationale

The administration of the Financial Markets Project falls on a single Project Officer and a few clerical staff. Considering PRE's limited resources, Project Officers have done an admirable job of processing Mission requests. In addition, they have tried to promote financial market development inside and outside AID, despite the constraints imposed by travel limitations.

The technical assistance offered to date has ranged from adequate to excellent, but this may not continue to be true in the future. Until now, the program has assisted the Missions in basic areas of finance to start a dialogue with host governments. However, as negotiations advance and other PRE programs (Investments and Privatization) expand and become more sophisticated, technical assistance for specific project design and implementation will require a higher level of expertise. As discussed below, it may become increasingly difficult for a contractor to access highly specialized consultants who are willing (because of fee constraints) and able (because of time constraints) to undertake AID assignments.

Furthermore, coordination between PRE and other U.S. government agencies, international organizations, and the private business sector has been sporadic and specific to projects. No mechanism exists at the institutional level to ensure cooperation and avoid duplication of efforts. The work of the international community could be greatly improved if this coordination existed.

In sum, the Financial Markets Project has often acted as an appendage to other programs—as expressed by one of the consultants—rather than assuming leadership as a promoter of free capital mobilization and a repository of all financial markets information. To provide the necessary level of resources, prestige, coordination, and leadership, PRE should consider establishing a quasi-independent Institute for Capital Mobilization.

The Institute for Capital Mobilization

An independent institute similar in concept, although different in function, to the Center for Privatization, can very well solve the limitations described above and thrust AID into a leadership role which is both critically needed and realistically achievable.

Many benefits would be realized through the establishment of such an institute. Among the most important are the potential leverage of (1) expertise and funding, and (2) knowledge and information.

- Leverage of Expertise and Funding. AID is constrained in its ability to attract top experts in the field and is limited in the amount of funding it may devote to capital mobilization. However, AID does have the capability to devote seed funds and to help coordinate the foundation of an institute that will have the necessary prestige to attract talent and support from the academic and private business communities. With a prominent Board of Directors in place, the Institute would be much better positioned to attract high caliber talent, as well as to tap additional sources of funding. Financial markets professionals who may not be attracted to the government consulting environment would most likely welcome the opportunity to participate in challenging endeavors in the company of prestigious colleagues. Practitioners and academics give their time more freely to a non-profit organization dedicated to a cause they espouse.

Likewise, international institutions which, for political and structural reasons, are unable to establish direct relationships with each other would be amenable to sharing their expertise and providing funds to support an independent, well-respected institute.

- Leverage of Knowledge and Information. The institute we are proposing would have two other benefits. By providing a common AID-led forum for coordination with other institutions that have been active in the same endeavors for many years, notably the IFC, World Bank, IMF, and a host of international organizations, the institute could help avoid duplication and achieve economies of scale by publicizing findings and sharing experiences in order to build a pool of knowledge from which other practitioners and researchers can benefit.

This multiplier effect of inter-organizational and inter-disciplinary exchanges can take place only in an open, neutral forum. The sporadic relationships and specific professional communication that occur between organizations usually last only until the project is completed or until the participants are transferred. Establishing a consistent and meaningful communications network requires having an institution that will structure and encourage it. By centralizing communications and disseminating the

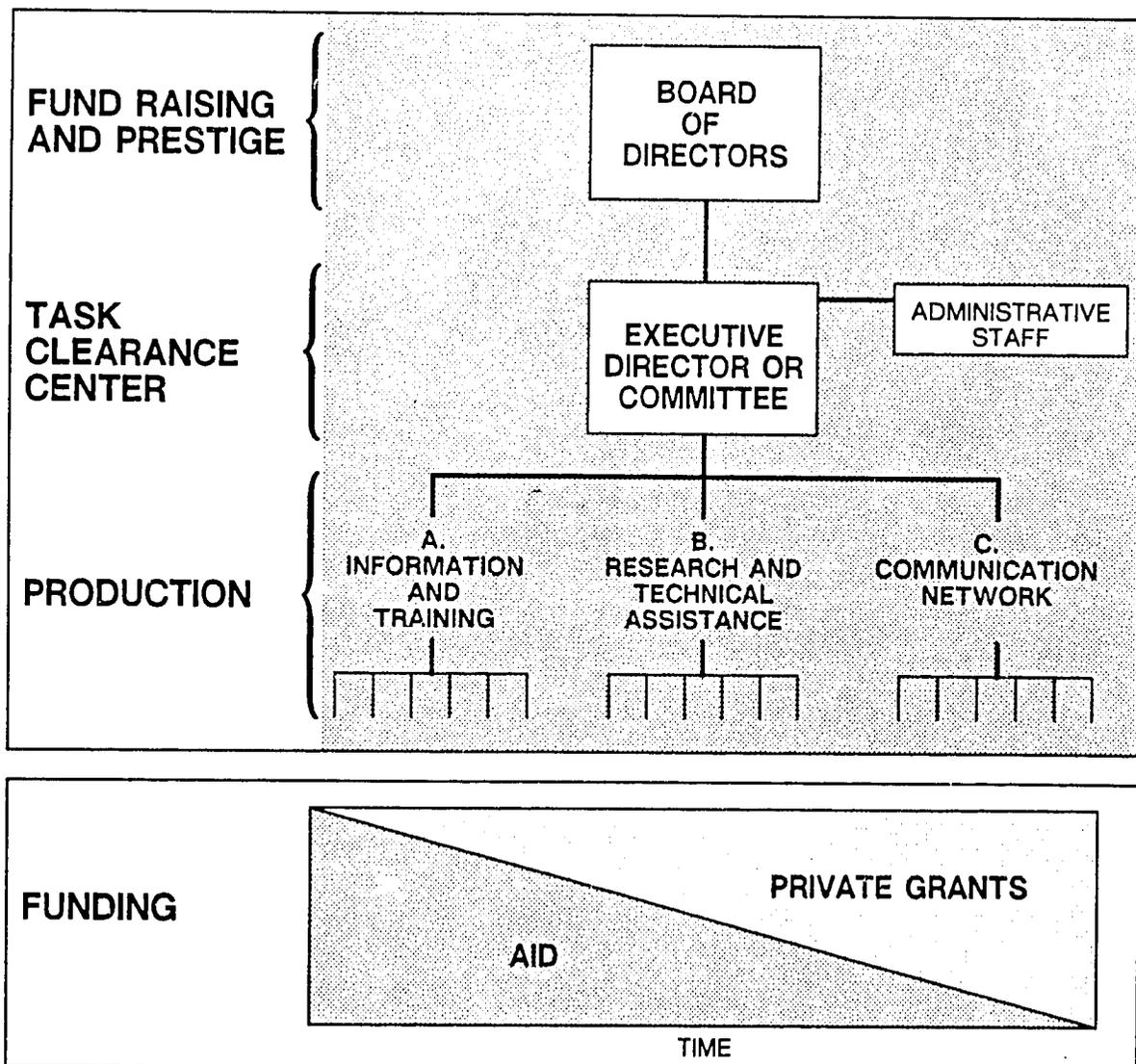
collective expertise of the international community in the area of capital mobilization, the ICM could be that institution.

In summary, an institute for capital mobilization in developing countries appears to be the best mechanism to fulfill numerous explicit and implicit needs that have surfaced during the course of this evaluation project.

Organization

Although it would be premature to provide a detailed table of organization for the ICM at this point, we have outlined broadly the major areas of responsibility, as shown on the chart below. The Board of Directors would help raise funds and attract competent consultants and staff. We envision that AID funding would be supplemented by grants from other not-for-profit institutions, as well as for-profit enterprises, and that over time, these other funding sources will pick up the funding burden.

**Organizational Chart for
the Institute for Capital Mobilization**



APPENDICES

APPENDIX A

TELEPHONE AND PERSONAL INTERVIEWS

Telephone Interviews

Mike Lofstrom, *ROCAP*
Larry Brown, *Thailand*
Susan Riley, *Jordan*
Joe Carroll, *Indonesia*
Mike Hauben, *Philippines*
Ken Lanza, *Dominican Republic*
Felipe Manteiga, *Guatemala*
Peter Leifert, *Kenya*
David Mantilla, *Ecuador*

Personal Interviews

AID/PRE

Chris Russell
Russ Anderson
Jim Dry
Michael Unger
Karen Anderson
John Hardy
Bruno Cornelio
Louis Faoro

Other AID

Sandra Frydman
Cliff Lewis
Bud Munson
Neal Zank

Contractor

Bob Rourke
George Ferris
Charlene Robinson

Other

Brian Sudweeks, Emerging Marketing Investors Corporation
Jack Garrity, IFC
Nicholas W. Noon, Deputy Director, Capital Markets Department, IFC
Rudolf H. van der Bijl, Principal Investment Officer, Capital Markets
Department, IFC
Laurence C. Clarke, Senior Investment Officer, Capital Markets Department,
IFC
Peter J. Wall, Research Analyst, IFC Capital Markets, IFC
Ivan Golac, Executive Secretary, Comision Nacional de Valores de Bolivia
(Securities and Exchange Commission)

APPENDIX A

TELEPHONE AND PERSONAL INTERVIEWS/Cont.

Jose Pedro Ortiz, Economist, Capital Markets Consultant to IDB and World Bank

Roger S. Leeds, Senior Research Fellow, Center for Business & Government, Harvard University, John F. Kennedy School of Government

APPENDIX B

CONSULTANT COUNTRY REPORTS ASSESSMENTS

Belize

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APPENDIX B

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APPENDIX C

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Eveleth, S., *Assessment of Availability Financing for Private Utility Development in Indonesia*, August 1987.

Jordan

Neiderffer, D., Harrell, E., *Financing Commercialization of Technology*, February 1987.
Sommer, A.A., *Report to Amman Financial Market on Mergers, Acquisitions, and Tender Offers*, April 1987.
Vandergrift, B., *A Preliminary Assessment of the Development of Mutual Funds in the Kingdom of Jordan*, April 1987.

APPENDIX C

CONSULTANT COUNTRY REPORTS/Cont.
SPECIFIC TOPICS

Morocco

Strauss, S., Goddard, C., *Summary of Findings: Section 108 Dirham Lending*, March 1987.

Panama

Eveleth, S., *Secondary Market for Mortgage Paper in Panama*, June 1986.

Philippines

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Portugal

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Senegal

dela Giroday, J., *Report: Seminar in Dakar on PME*, June 1986.

Yemen

Eveleth, S., Shoraka, Jalil, *A Study of the Financial System of the Yemen Arab Republic*, March 1988.

APPENDIX D

SUMMARY OF FINANCIAL MARKETS SURVEY

Belize:	March 1986
Bolivia:	February 1986
Dominican Republic:	March 1986
Ecuador:	March 1986
Honduras:	March 1986
Indonesia:	January 1986
Kenya:	April 1986
Morocco:	April 1986
Nepal:	January 1986
Pakistan:	February 1986
Panama:	March 1986
Portugal:	March 1986
Rwanda:	April 1986
Senegal:	January 1986
Swaziland:	October 1986

APPENDIX E

OTHER RESEARCH REPORTS

ROCAP

Arthur Young, *Central American Capital Markets*, October 1987.
Arthur Young, *Descriptive Summary: Central American Financial Markets*,
November 1986.

Analysis of Financial Market Classification

Arthur Young, *Preliminary List of Financial Market Variables*, February
1986.

Interest Rate Controls

Arthur Young, *Interest Rate Controls and Financial Repression in Developing
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Micro Credit Model

Ashe, J., *Micro Credit; A Financial Intermediary for the Informal Sector*,
November 1986.

Summary Report

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Venture Capital Report

Arthur Young, *Venture Capital Process (draft)*, January 1987.

APPENDIX F

EVALUATION QUESTIONS CABLED TO MISSIONS

Since there was little indication on file of the results of PRE financial markets assistance as perceived by the Missions, Karen Anderson agreed to send cables to the Missions asking the following general evaluation questions:

- If you participated in the Financial Markets Project, give us your evaluation of the following:
 1. Did you receive the quality and extent of assistance that you had requested and expected? Please explain.
 2. What is the present and future impact of this assistance on capital mobilization in your host country?
 3. What assistance do you expect to need in the future to foster capital mobilization in your country?

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SCOPE OF WORK FINANCIAL MARKETS EVALUATION

BACKGROUND

The Bureau for Private Enterprise (PRE) created the Financial Markets Project in 1985 to "focus on private sector financial markets development as a critical factor in the growth of indigenous private enterprise activities within LDCs." The project's principal objective was to promote the development of financial market institutions to mobilize domestic capital for productive activities in developing countries. In pursuit of this objective, PRE contracted with Arthur Young and Company on September 30, 1985 to develop and implement projects aimed at assisting selected LDC financial market institutions. PRE's contract for \$1,920,460 covers the period through September 30, 1988. An additional \$976,047 has been provided by A.I.D. Mission buy-ins to the project, for a total of \$2,896,507.

Under the terms of the contract, the contractor is to provide both short- and long-term assistance to PRE, and, through A.I.D. Missions, to host governments and private indigenous enterprises. The contractor's technical assistance is to include, among other

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services: policy analysis related to financial market constraints; financial markets assessment and analysis; economic analysis; and management training. Provision of consultants for in-country assignments under the project is activated by A.I.D. Mission requests.

Contract task requirements include:

(1) Long-term project management assistance to PRE staff in promoting financial markets development. Among other tasks, the contractor is to evaluate existing financial market institutions in selected LDCs and identify those with the highest potential to guide A.I.D. program concentration. The contractor is also to design mechanisms for inclusion in A.I.D.-funded programs to foster financial markets institutions.

(2) Short-term, task-specific assistance. This task is to include advice to project management staff in policy analysis, financial market assessment, and financial enterprise management. The contractor is to develop and recommend long-term plans for financial market development strategies in approximately seven countries. As tasked by PRE, the contractor is to design and implement "novel" projects for PRE or USAID Missions, and evaluate existing mechanisms. The contractor is to develop a roster of individuals and firms to provide financial markets expertise.

By January 1988, assistance had been provided in 25 countries under

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the project. Buy-ins to the project for additional assistance were executed by six USAID Missions.

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ARTICLE I - TITLE

Evaluation of Financial Markets Project

ARTICLE II - PURPOSE

The purpose of the evaluation is to provide information regarding the effectiveness and impact of PRE's Financial Markets Project, to assist the Bureau in determining direction and funding for the project. Timing of this evaluation is intended to support Bureau decisionmaking prior to expiration of the project's current contract with Arthur Young and Company (Contract No. DPE-2005-C-00-5060-00) on September 30, 1988.

ARTICLE III - STATEMENT OF WORK

A. Methods and Procedures

The work plan will follow the framework of methods and procedures outlined below. Modifications within this framework may be determined with the approval of PRE's Program Review Office.

At the start of the evaluation, the evaluation team will meet with representatives of the Bureau's Program Review and Project Development offices to prepare a detailed work plan.

1. Interviews

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The evaluation team will conduct interviews with individuals identified from the following groups:

- a) representatives of the contractors and consultants for the Financial Markets Project;
- b) A.I.D./PRE personnel responsible for monitoring the Financial Markets Project, and other A.I.D./W representatives knowledgeable concerning the project; and
- c) By telephone, A.I.D. Mission directors, private sector officers and other personnel who worked with project consultants or are otherwise familiar with its activities in their countries.

3. Research

Research will include, but not be limited to, review of the following:

- a) Financial Markets Project consultants' reports
- b) A.I.D. documentation of the Financial Markets Project, including the core contract and modifications for Mission buy-ins, the Request for Proposal and contractor's proposal for the project contract.

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- c) The contractor's monthly and quarterly reports to A.I.D.
- d) Previous assessments of project work, including Mission reviews of consultant reports

B. Issues for Evaluation

The team's interviews and research will be designed to provide empirical findings to answer the questions listed below:

1. Effectiveness

The evaluation should provide information to determine whether the project is achieving satisfactory progress toward its stated objectives.

-- Has the project provided assessments of existing financial markets in selected LDCs?

-- Has it determined the types of institutions within these financial markets upon which A.I.D. should concentrate its projects?

-- Has the project designed mechanisms and program strategies for

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inclusion in A.I.D.-funded programs through which the identified institutions can be fostered?

-- Has it examined LDC policies, procedures, laws, regulations and practices regarding financial markets to determine how they may inhibit or stimulate their development?

-- Has it recommended generic and specific guidelines to be used by PRE and the Missions in the assistance effort?

-- Has the contractor achieved a satisfactory match between requested tasks and consultant skills?

-- Has the PRE Bureau marketed the project effectively?

-- In what ways does the project overlap with other Bureau ^{act} activities and point to new areas for PRE involvement?

-- Is work completed under the project unique and/or innovative?

-- What are the major obstacles to progress toward the project's objectives?

2. Efficiency

-- Briefly describe alternative approaches and mechanisms for

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financial markets development which A.I.D. might employ, and review their costs.

-- Did the contractor deliver the services and individuals requested in PRE's RFP and identified in the contractor's proposal?]

3. Impact

-- Is there evidence that mechanisms to foster financial market growth, recommended by the project, have been incorporated into A.I.D. projects?

-- Is there evidence of awareness and/or acceptance by host-country institutions of conclusions and recommendations reached by project consultants? Has there been any incorporation of such recommendations in host-country policies or planning?

-- Is there evidence of impact on Mission/host-country policy dialogue resulting from work under the project?

4. Sustainability

Is there evidence to suggest that the positive effects of the project, identified in (3), are likely to be sustained after A.I.D. funding has ended?

ARTICLE IV - REPORTS