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**TECHNICAL ASSISTANCE AND SUPPORT TO IMPLEMENT THE
FINANCIAL MARKET DEVELOPMENT (FMD) PROJECT**

Contract No 687-C-00-94-00136-00

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FINAL REPORT

December 1998

Presented to

**USAID/Madagascar
Villa Vonisoa III, Rue Dr Ravoahangy
B P 5253, Antananarivo, Madagascar**

Presented by

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**ASSISTANCE TO THE GOVERNMENT OF MADAGASCAR (GOM) IN DEVELOPING
FINANCIAL MARKETS THROUGH THE USAID FINANCIAL MARKET
DEVELOPMENT (FMD) PROJECT**

Through the Financial Market Development (FMD) Program and Project, USAID\Madagascar and its project office for market and business development is supporting the Government of Madagascar's strategy to tackle the financial constraints restricting economic growth and work towards increasing the level of financial savings, the efficiency of investment and lowering the costs and risks of financial transactions. As part of this strategy, and designed in coordination with other donor institutions, and two Malagasy financial institutions – the Central Bank (*Banque Centrale de Madagascar* or BCM) and the *Caisse d'Epargne de Madagascar* (CEM), USAID contracted with Eccles Associates, Inc. to complete the Project Assistance component. The project was a combination of policy reform and project activities to strengthen the institutional capacity of the Central Bank and CEM and liberalize the financial markets.

Under the contract, Eccles Associates provided technical assistance, training, and equipment to the CEM to support expansion and improvement of its operations and worked with the BCM to support research, design, and implementation of a market-based monetary policy.

The Contract was signed in May 1994 and the long-term advisor to BCM was mobilized for a three-year tour-of-duty that year. Moreover, the short-assistance to CEM was initiated, with the banking advisor completing two trips in 1994. Eccles Associates continued providing advisory services to CEM on an intermittent basis up until July 1998. Accordingly, two contract modifications were approved in November 1996 and August 1997 to, in general, extend the completion date, reallocate funds between budget lines, and reallocate estimated workdays between labor categories. USAID completed a Contractor Performance Report in August 1997, providing a mean score of 4.2 or "Excellent" on the rating matrix.

Banque Centrale de Madagascar

The Central Bank component focused on two areas: establishment of a Research Department and human resource development. In this regard, Eccles Associates assigned a long-term economic advisor to the Central Bank for the period August 1994 to July 1997. By placing an economic expert at the Central Bank for an extended period, Eccles Associates provided on-going technical advice to strengthen the Central Bank's research capacity. The objective of the assignment was to help the Central Bank to better formulate and implement stable, non-inflationary monetary policy consistent with free market principles and based upon analysis of

current financial and other economic factors Mr George Bossy, a former Federal Reserve Bank economist, provided long-term technical assistance to BCM beginning in August of 1994 and completing his tour-of-duty in July of 1997

Reports/Deliverables

As agreed with the BCM directors and USAID, Mr Bossy prepared and submitted quarterly progress reports The reports described in detail achievements during the reporting period, particularly as related to the project logical framework and work plans The reports submitted include

Progress Report, Fourth Quarter 1994

Progress Report, First Quarter 1995
Progress Report, Second Quarter 1995
Progress Report, Third Quarter 1995
Progress Report, Fourth Quarter 1995

Progress Report, First Quarter 1996
Progress Report, Second Quarter 1996
Progress Report, Third Quarter 1996
Progress Report, Fourth Quarter 1996

Progress Report, First Quarter 1997
Progress Report, Second Quarter 1997

In addition, Mr Bossy reviewed the accomplishments and methodologies put in place during the long-term technical assistance component in a final report (see Annex 1) entitled

“Evaluation of Three-Year Technical Assistance Assignment to the *Banque Centrale de Madagascar*, August 1994 - July 1997”

Mr Bossy was also instrumental in the preparation and issuance of the BCM’s annual reports, beginning with the 1993 report Likewise, the research department under his close supervision and with his expert input prepared “Bulletins” (*Bulletin d’Information et de Statistiques*) a series of quarterly economic studies

Accomplishments

As reported in the “Evaluation”, some of the accomplishments of the long-term assistance provided to the BCM include

- Preparation and Issuance of Annual Reports for the first time and on a consistent basis going forward In addition, the Research division progressively shortened the time required to issue the Reports and progressively improved the quality, providing meaningful analysis and discussion of economic developments

- Streamlining and improving the quality of the *Notes de Conjuncture* which are internal documents prepared each quarter. As evidence of the quality of the documents, the *Notes* now serve as the backbone for various economic studies which often (starting with 1996) accompany the Central Bank's quarterly public document *Bulletin d'Information et de Statistiques*. In the fifteen months following the introduction of the economic studies in the *Bulletin*, the paying subscriptions to the *Bulletin* increased by 89.7%.
- Design and development, by BCM Research Department staff member, of a short-term econometric model linking prices, money supply, and the exchange rate. As reported, Eccles Associates' expert economic advisor sees the model as a "truly original piece of work".

Issues Ahead

In the "Evaluation" document Mr. Bossy laid out concerns and recommendations regarding the BCM's Research Department. Many of the issues identified stem mostly from apparent shortcomings in the Department's staffing level and current technical aptitude. Though the Department made great strides over the past years especially in preparing internal reviews and annual reports, the staff may not be able to adequately address complex policy matters without outside assistance. Moreover, the Central Bank's staff resources will be insufficient for the Bank to gather data and measure certain economic inputs that are important to the Country's economic growth, for example measuring the impact of the informal financial sector or studying the level of direct investment in the Country.

Outside of the Research Department the BCM will need assistance as the secondary money market grows and as open market operations become an instrument of monetary policy.

Caisse d'Epargne

The second component for the Project Assistance in Financial Market Development focused on assistance to *Caisse d'Epargne de Madagascar*, a national savings bank. For this component Eccles Associates provided short-term, intermittent advisory services to the CEM. The work was designed to help CEM to develop plans and implement strategy in the areas of marketing, finance, human resource development, and automatic data processing, and with a goal to improve the access, user friendliness, and interest rate incentives for savers.

Specific objectives of the short-term technical assistance included

- Advising CEM on a strategy to implement a three-year plan leading to private capital participation and more market-driven use of its liability base.
- Assisting the CEM with its modernization, staff development plans, and training.
- Recommending procedures and strategies concerning staff development, marketing, and business expansion.

- Providing management with strategic planning advice for its modernization program and assistance in establishing a financial reporting system useful as a management tool

Over the contract period 1994 to 1998, Eccles Associates provided intermittent technical advisory services in the targeted areas of financial institutional development and banking operations. Accordingly, over the course of the contract, Eccles Associates mobilized three advisors to complete the requested tasks

- Mr. Alfredo Cardona, international banking manager and business development expert
- Mr. Alain de Maynadier, international financial and capital market specialist
- Mr. Joel Antal, financial institution expert in planning, reorganization, and credit systems

Each tour-of-duty was requested and approved by CEM management and USAID project officers. Likewise, specific objectives and a scope of work were discussed and approved for each mission. At the completion of each tour-of-duty, a comprehensive "trip report" was issued in French and English to USAID/Madagascar and CEM. The reports addressed the tasks completed and objectives of the particular short-term assignment. The advisors also made recommendations for CEM management to implement. These recommended steps were then reviewed during the subsequent mission. In total, Eccles Associates' financial advisors completed nine short-term technical assistance missions, beginning in August 1994 and ending in June 1998. In addition, as follow-up to one assignment Eccles Associates studied the prospect of creating a market for Treasury Bills in Madagascar and issued a series of recommendations in a report.

Reports/Deliverables

Comprehensive reports (averaging about 40 pages and including appendices) were issued as a result of each CEM technical advisory assignment. Moreover, the accomplishments, work methodologies, and results built upon the prior assignment as CEM modernized and progressed. For these reasons and in an effort not to duplicate documents already provided to USAID in multiple copies, the reports previously issued are not reproduced in this final summary document. The information provided in these reports, as well as the objectives, results and accomplishments of each assignment are outlined in the Accomplishments section below.

Accomplishments

August 1994, Alfredo Cardona

Organization Framework

1. Revised articles of incorporation and formulated necessary changes
2. Reviewed the general organization plan proposed by Cabinet Jureaco and subsequent preparation of a new general organization plan for CEM

- 3 Reviewed and prepared a human resource plan
- 4 Prepared a general framework for an agreement between Etablissement Public Poste and CEM, reviewed the most important points to be covered and discussed the reimbursement of certain costs to the postal system
- 5 Formulated and prepared financial objectives (budget) from 1994 through 2001

December 1994, Alfredo Cardona
Marketing Planning and Training

- 1 Reviewed and updated the organization framework agreed to in September 1994
- 2 Reviewed and updated the Budget agreed to in September 1994
- 3 Developed a marketing plan for the CEM covering 1995 and 1996
- 4 Developed a training plan for the CEM covering 1995 and 1996
- 5 Developed a follow-up mechanism to ensure all actions agreed to for 1995 - 1996 are reached

January/February 1995 Computer Equipment Procurement

In support of the CEM modernization component and as requested by USAID, Eccles Associates procured computers and network servers. The procurement closely followed technology specifications provided by CEM and USAID. Eccles Associates obtained competitive quotations for the equipment and selected a vendor to source 18 Dell Computers, software, and network components. CEM used separate, local technical resources for installation, service, and computer training.

March 1995, Alfredo Cardona
Product Introduction

- 1 Reviewed the CEM's marketing and sales plan covering the period 1995 - 1996 and the enactment of any changes deemed necessary
- 2 Prepared a list of products that the CEM introduced during the next 18 months, classifying the product introductions according to client and prospect interest. Helped CEM prepare for the first product launch
- 3 Prepared for other new product introductions during 1995 to 1996

September 1995, Alfredo Cardona

Operational Management and Organizational Change

- 1 Prepared a new product checklist for the introduction of the new product “Compte Retraite”
- 2 Prepared a new product checklist for the introduction of a new family of “Special purpose products” (Produits Specifiques)
- 3 Discussed with CEM’s lawyers the groundwork for the introduction of asset products (i) home loans, and (ii) loans to major corporations
- 4 Discussed the Internal Auditor’s responsibilities with the new hire
- 5 Discussed Investor Relations and general department responsibilities with the new Communications Director
- 6 Discussed the state of EDP systems with EDP head
- 7 Discussed MIS systems
- 8 Discussed the transfer pricing agreement signed by the Post Office and the CEM
- 9 Discussed eventual changes in present organizational chart
- 10 Updated internal deadlines established by CEM
- 11 Discussed with Banking Regulators and external auditors on the establishment of the “Societe Anonyme CAISSE D’EPARGNE”

April 1996, Alain de Maynadier

Un Action Plan d’Action Pour Anticiper La Privatisation de La Caisse d’Epargne de Madagascar

- 1 Prepared An Action Plan in Anticipation of the Privatization of La Caisse d’Epargne de Madagascar
- 2 Recommendations included
 - (a) Defining the Mission of CEM economical, financial, and social
 - (b) Preparing documentation requirements for change to a private company, including Board of Directors, Personnel Regulations, Decree of Application, and agreement with Ministry of Post, Telegraph & Telephone

- (c) Studying the possibility of lease-purchase housing, lending to local banks, lending to depositors, service term deposit in part with CEM stock, and installing electronic passbook readers
- (d) Putting into place management system by objectives
- (e) Projecting budgets over period of three years
- (f) Creating a Management Committee, activating a Treasurer position, planning a personnel rotation cycle, reviewing Internal Auditor

May 1996, Alain de Maynadier

Un Essai Sur La Structuration D'un Marche Secondaire Des Bons Du Tresor a Court Terme

- 1 Study of the possibility for the CEM to become a Market Maker in short-term Treasury Bonds and recommended the steps to take
- 2 Prepared a paper discussing the modernization of the Treasury Bill Market in Madagascar, including negotiability and secondary market issues. Outlined the advantages of modernization to the Malagasy economy and the introduction of a new financial instrument

December 1996, Alain de Maynadier

Un Rapport Sur La Transformation de La Caisse d'Epargne de Madagascar de Societe Etatique en Societe Anonyme

- 1 Reviewed the report of the external auditor and advised CEM on implementing the auditors' recommendations
- 2 Advised the CEM Financial Operations division on the preparation of the 1997 financial plan and 1997 portfolio management
- 3 Advised CEM management on necessary steps to complete a transformation to a private company
- 4 Reviewed progress to date by the Central Bank and Ministry of Finance in establishing a new T-Bill market, advising working group on structures
- 5 Offered advice on presenting/promoting the Treasury Bill market for Malagasy business associations

May 1997, Alain de Maynadier

Un Compte Rendu sur le statut de La Societe Anonyme Caisse d'Epargne de Madagascar

- 1 Technical assistance to CEM on the transition to a private company
- 2 Counseled the General and Finance Directors Offices on legal procedures of the Treasury, providing a comparative analysis of taxes and interest for Treasury Bonds and the certificates of deposits obtained by commercial banks
- 3 Developed criteria for internal audit personnel and procedures
- 4 Reviewed the operational and management improvements at CEM
- 5 Suggested necessary actions to implement in order to finalize the privatization
 - (a) Implement accounting system in conformity with the national accounting plan
 - (b) Analysis of CEM's balance sheets and Interim Agreement concerning debt to State
 - (c) Recommendation on structure and composition of Board of Directors
- 6 Strategic planning for income optimization, competition, and investment policy

December 1997, Joel Antal

Financial Reporting and Planning Process

- 1 Evaluated accounting software effectiveness in gathering information for CEM's financial management
- 2 Assessed the internal financial reporting process and recommended new report products needed for productive decision making
- 3 Outlined steps for much needed budgeting, profit planning and performance measurement

June 1998, Joel Antal

Planning and Budgeting

- 1 Created internal CEM-T/A guidelines setting forth (i) timing, organization, and content of strategic Annual Plan and its integration into the Annual Consolidated Budget, and (ii) Methodology for Budgeting and for Breakeven Analysis
- 2 Launched the Planning Cycle for FY 1999, including setting a timetable for the preparation phase and preparing a first draft outline of an annual plan that attempted to incorporate plans prepared by each of the four departments (as of first date on the timetable)

- 3 Outlined CEM's entire (and immediate) MIS requirements matched with a phased plan to upgrade the network, which is to be monitored by a joint USAID/CEM review committee
- 4 Started a presentation of monthly interim financial reports (budget, income statement, cash position) based on combined estimates and hard data

Issues Ahead

As discussed in the June 1998 report, which focussed on Planning and Budgeting, and highlighted in a memorandum to USAID at that time, the key issue facing CEM is reaching and sustaining profitability. The underlying problem is that CEM management is not in a position to monitor its operations closely. It was not utilizing monthly interim statements. With poor information gathering and dissemination emerging problems can go undetected much longer and ongoing problems do not get the attention they need. This could become more problematic as the pace of business picks up, as more companies in Madagascar privatize and as CEM must report and respond to its shareholders.

If USAID continues to support CEM's modernization, transformation and outreach to savers, USAID should continue to monitor CEM profitability and pay attention to the credibility and timeliness of profitability numbers. Accordingly, further technical assistance could be a sound institutional investment.

George H. Bossy

EVALUATION OF MY THREE-YEAR TECHNICAL ASSISTANCE ASSIGNMENT
TO THE
BANQUE CENTRALE DE MADAGASCAR

August 1994-July 1997

The situation I found on arrival

After years of down-sizing and neglect, the Research Department was in a sorry state when I arrived in Madagascar in August 1994. Left without a Director for some 7 or 8 years, its best people attracted away by other departments, Research had shrunk into lethargy. It had become, in effect, a mere statistical office, which provided top management on a regular basis with a series of statistical tables. While long ago these tables had been accompanied by brief notes, that habit had died out.

The general view in the Department was that the way of improving Research's performance was to produce more statistics, preferably by conducting large-scale surveys (for which the Central Bank did not have the necessary manpower or competence). Another strongly held view was that econometrics could provide precise formulas which, applied more or less automatically, would produce reliable forecasts and a sound monetary policy.

These beliefs inevitably led to analysis being given short shrift. This tendency was reinforced by the fact that most members of the Department (including its Director) were not trained economists and were therefore wary of undertaking analyses that might reveal their inexperience. There was also an underlying view that there was no need to analyze statistical data in the Department, since top management was capable of doing so itself.

Under aid-donor urging, and in order to support and reinforce the movement toward central bank independence and the use of market-based instruments of monetary policy, the Central Bank's top management finally endowed the Department with a Director and undertook to upgrade it. And it was in order to support that effort that USAID provided my services to the Central Bank.

The Department, however, had barely started to recuperate at the time of my arrival. It was still essentially only a statistical office, and so under-staffed that it could hardly have moved toward higher goals even had it known how to.

Combining Research's own problems and those of the Bank at large, I encountered at first the following rather daunting array of difficulties which seriously crippled my efforts to get Research moving, and which made the first half of my three-year assignment a highly frustrating experience.

- * A serious deficiency in the number and quality of the Research Staff, and an over-cautious approach by top management in providing Research with the required staff, personal computers, books, etc.
- * A misconception within Research, and including on the part of its Director, as to the proper functions of a central bank research department. A general lack of understanding of the limits of economics and of the imperfections of statistics.
- * Resentment on the part of the Director of Research and of one or two senior staff members at having a foreign advisor foisted on them, resistance to change by several other employees.
- * Lack of clear demarcation between the studies to be performed by Research and those to be carried out by the operating departments.
- * An almost complete lack of cooperation and communication between departments and, indeed, frequent turf disputes.
- * An infuriating habit of postponing difficult or unpleasant decisions.

Tasks undertaken

The above comments make it evident that, from the very start and throughout my assignment, my first priority had to be, so to say, "pedagogic". On one level, I preached the critical need to provide important information to top management immediately, rather than waiting until all other relevant data needed to present a neat and complete package became available. On another, I dwelled again and again on the need for a report to be concise and to highlight only those aspects that were significant. No need to describe a table in words, item by item; but there is a need to link some of this period's data to preceding periods if doing so will indicate an emerging trend. I also found that many staff members had poor writing skills, and did my best to improve them, in fact, many "cadres" had never drafted a report before. Finally, there was too frequently the need to teach elements of basic economics; even senior staff members often continued to think in terms of a command economy, rather than of a market-based one, and populist "man-in-the-street" views were mouthed well into my second year (e.g., middle men who buy produce in the country-side at low prices and sell them at higher prices in the cities are nefarious speculators who push the cost of living up).

While these "pedagogic" efforts were an ongoing task throughout my tenure, and may not have been sufficiently emphasized in my progress reports, other activities were more adequately covered and will hence be only briefly summarized below.

Much of my time during the first year was taken up by a committee's vain efforts to allocate "research-type" studies among the Bank's various departments. This is basically not a very

difficult problem, since there are not that many overlapping areas, and since a ruling by the Governor should settle the matter for several years to come. But I suspect that none of the departments was willing to see a final ruling, fearing to lose an area it was claiming.

In a related issue, I drafted a research strategy and work plan for 1995; as these were not reviewed by top management, I updated them for 1996. Since these documents, along with the publication of a Central Bank annual report, were one of the conditions precedent to the disbursement of USAID's second \$3 million tranche, they were approved by the Bank just days before the deadline, but were never seriously discussed. In a similar endeavor, I proposed more flexible organization of the Research Department's staff classification, but there was no follow-up.

From early 1995 to mid 1996 I drafted numerous versions of terms of reference for short-term technical assistance programs to be funded by USAID. In my view, too much effort was devoted to the task. There were disagreements within the Central Bank as well as between the Bank and USAID, and these led to a profusion of back-and-forth versions. In addition, I do believe USAID somewhat overestimated the Research Department's endowment with people and skills, and was therefore proposing programs that probably exceeded the Bank's absorption capacity. Be that as it may, compromises were reached, and in late 1995 two technical assistance missions, of ten weeks each, took place, the one to help the Central Bank prepare the financial sector tables of the national accounts, the other to provide support to the Bank's monetary studies. And this year, USAID financed the Harvard Institute's intensive training program held in Antananarivo.

One of these proposed technical assistance programs, in particular, took much of my time the one dealing with the modernization of the Bank's antiquated Documentation Center. The first phase of the program was, at last, successfully completed in mid-1996, but the second phase has unaccountably become bogged down, apparently because the Bank has not yet adopted a document acquisition plan. (I drafted such a plan last October, but it never saw the light of day.) The Central Bank risks losing the \$60,000 earmarked by USAID for the purchase of books and materials if that amount is not effectively committed by the end of September.

Another program USAID was prepared to finance, but which has apparently fallen by the side due to Central Bank inaction, is the one calling for the putting together of an integrated data base for the Research Department, in replacement of the present archaic system of separate and unlinked statistics for each of the Department's sections.

Accomplishments

The Research Department has made great strides in putting out periodic reports on the country's economic situation, be they for the Central Bank's internal use, or for the public's information.

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Over the first twenty years of its existence, the Central Bank of Madagascar did not issue a single annual report. Since my arrival, however, such reports have been issued annually, starting with that for 1993. The quality of the annual reports has improved markedly from year to year. They have become much more analytical, and they now describe developments within the year, rather than merely comparing one year with the preceding one. Despite various setbacks, the time required to issue them has been progressively shortened.

The "Notes de Conjuncture", prepared quarterly for internal use, have also become better integrated and are proving more useful than in the past. While at first putting out these notes was a gruelling job, things go now much more smoothly and the various sections fit together much better.

The considerable improvement in the quality of the "Notes de Conjuncture" has led the Director of Research to use them as the backbone for economic studies that, since the beginning of 1996, have accompanied the Central Bank's quarterly "Bulletin d'Information et de Statistiques". The March and September issues, heavily based on the latest internal "Note", review recent developments in the Malagasy economy. The June and December issues, on the other hand, deal with a variety of topical issues, such as the role of interest rates in the economy, or the competitive position of Madagascar. In the fifteen months following the introduction of these economic stories, the paying subscriptions to the Bulletin have almost doubled (+89 %).

Progress, by contrast, has been more uneven and hesitant in the case of ad hoc policy-oriented memos or in that of basic research work, be it econometric in nature or not. This has resulted primarily from the fact that priority had to be given to urgent day-to-day needs (such as preparations for an approaching IMF mission), while the available human resources were limited.

Nevertheless, a number of policy-oriented studies were made. In the monetary area, the loss of confidence in the Malagasy franc in 1994-1995, and the subsequently recovery in the latter part of 1996, were analyzed by studying the relative evolution of FMG and foreign-currency deposits, while studies were made of the evolution of the economy's liquidity position. The evolution of the consumer price index was closely followed, and the Research Department actively participated in the development of a formula to determine, in an inflationary environment, the appropriate level of the Central Bank's *taux directeur*. Forecasts of the FMG's exchange rate were made as well as estimates of the currency's appropriate level, and recommendations were made for stabilizing the foreign exchange market. Studies were made of Madagascar's international competitiveness, of its external debt, of the debt burden on the economy, and of the debt forgiveness that would be needed to bring about a renewed and satisfactory economic growth.

The Research Department collaborated closely with the Credit Department in the joint working group established with the Ministry of Finance's Treasury Department for the launching of real/

negotiable Treasury bills, and for the establishment of a secondary market that would eventually allow the Central Bank to undertake open market operations

In another area, Research made a considerable step forward when one of its staff members developed a short-term econometric model linking prices, money supply, and the exchange rate. This, in my view, was a truly original piece of work, rather than, as in the past, a modification of equations put together by an IMF Mission.

The road ahead

As mentioned earlier, Research has made solid progress in the preparation of the internal quarterly reviews and of the published annual reports, and I am confident that from now on these can be produced satisfactorily by the Department without any further outside assistance. This should also hold true of the more straightforward policy-oriented memoranda.

In the case of more complex policy matters, however, I fear that the Department as presently staffed may well not be up to the task, especially if the problem at hand is a new one for Madagascar. Advice from the IMF missions that periodically visit the country, or from the Fund's permanent representative here, could provide helpful support. I also feel uneasy about those articles in the Bank's quarterly Bulletin that do not deal with recent economic developments. I had to take a pretty active part in their production, providing substantial guidance and writing some of the sections myself.

Further econometric work is required and some short-term technical assistance would be helpful in this area. However, not much progress can be made as long as there is only one person in the Department who has econometric skills, and who is also called upon to perform other tasks.

I would like to see the Central Bank's network of agencies used to put together a periodic compendium of the agents' assessments of economic conditions in their respective regions. Such a compendium, akin to the Federal Reserve's "Beige Book", would perforce be qualitative (rather than quantitative) and subjective, but nevertheless extremely helpful. Unfortunately, the response of the Director of Research was to send an overly long questionnaire that asked for a considerable amount of statistics that are most likely not available, not a single questionnaire has been returned.

Another important piece of research would be to investigate the informal financial sector, which must be quite important since such a small percentage of the population has access to or uses the formal banking system. But the Department does not have the necessary staffing. Neither is it equipped to make studies of direct investments in Madagascar, a topic that is likely to become quite important, or to survey departing tourists by means of questionnaires.

One hopeful development has been the establishment of a Comité Monétaire and of a Comité de Liaison Operationnelle, discussed in an earlier progress report. These haven't yet begun to operate in any meaningful sense, but they should both help erode the walls between departments, and generate new ideas and proposals by fostering cross-fertilization.

Outside of the Research Department, the Central Bank could greatly benefit from technical assistance as a secondary money market takes root and is expanded to private instruments, and as open market operations grow into an important instrument of monetary policy.

Another highly critical area in my view is the payments system, which is a complete mess at present. There is an urgent need to drastically improve the check-clearing system, and preparations must be made, and quickly, for the introduction of new products, such as electronic funds transfers.

George H. Smy

July 23, 1997