

**QUARTERLY REPORT
Fifth Quarter**

(October 1 to December 31, 1997)

Submitted To:

Contracting Officer
Agency for International Development (A.I.D.)
AEP Branch/B Division SA-14, Room 1539
Office of Procurement
Washington, D.C. 20523-1429

**INDEFINITE QUANTITY CONTRACT (IQC)
QUICK RESPONSE SHORT TERM ADVISORY AND TECHNICAL ASSISTANCE SERVICES
MACRO AND INTERNATIONAL ECONOMIC ANALYSIS**

CONTRACT NO. AEP-4212-I-00-6027-00



INTERNATIONAL SCIENCE AND TECHNOLOGY INSTITUTE, INC.

In Association With:

Georgia State University, Policy Research Center
Institute for Policy Reform, and
The Berkeley Center for Sustainable Resource Development

CONTRACT NUMBER: AEP-4212-I-00-6027-00

PRIME CONTRACTOR: International Science and Technology Institute, Inc.

SUBCONTRACTORS: Georgia State University, Policy Research Center
Institute for Policy Reform, and
The Berkeley Center for Sustainable Resource Development

CONTRACT PERIOD: September 24, 1996 through December 23, 1999

PROGRESS TO DATE:

First Quarter
(September 24, 1996 through December 31, 1997)

No activities to report in the first quarter, as ISTI did not submit proposals for delivery orders during this period.

Second Quarter
(January 1 through March 31, 1997)

Delivery Orders Executed or in Progress or Completed:

Delivery Order #801

ISTI executed delivery order #801 for \$247,787 on March 25, 1997, to provide a nine-person design team to develop the Results Package for USAID/Egypt's Capital Markets Development Project.

Proposed By ISTI and not Accepted:

ISTI received an informal request (scope of work) from USAID/Egypt in March 1997, to conduct an economic assessment of power and telecommunication sectors in Egypt. In response, ISTI submitted resume for a senior economist with experience in power and telecommunication sectors, and a draft methodology for the assessment. In April 1997, USAID/Egypt informed that another contractor has been selected for the assignment.

Requests Received but not Responded by ISTI:

A request was sent by COTR on March 26, 1997 for possible technical assistance to Government of Jamaica to address the domestic financial crisis, for which no formal action was required by USAID/Jamaica from ISTI.

Third Quarter
(April 1 through June 30, 1997)

Delivery Orders Executed or in Progress or Completed:

Delivery Order #800

Delivery Order #800 was executed on May 6, 1997 with USAID/Colombo to provide eight months of services of an foreign exchange expert to Central Bank of Sri Lanka. The assignment was scheduled to spread over an eight month period. The objective of TA is to modernize the foreign exchange department of CBSL by automating the trading system; introducing a technical analysis system; streamlining research efforts and improving the institutional structure.

Delivery Order #801

ISTI implemented delivery order #801 by fielding the nine person design team in Cairo from March 26 through May 28, 1997. The design team successfully completed the Results Package for Capital Market Development Project, which was approved by USAID/Egypt's Strategic Objective 1 Team on May 21, subject to minor modifications. The final version of the Results Package was presented by the team leader, after incorporating USAID's comments, prior to his departure on May 27.

Delivery Order #802

ISTI was selected on June 9, 1997, to provide a three person team to evaluate the Build Operate-Transfer (BOT) Program in the Philippines. ISTI's team comprised of three senior consultants: team leader and power and transportation expert; privatization/financial expert; and local government/environmental infrastructure expert

Proposed by ISTI and not Accepted:

None

Requests Received but not Responded by ISTI:

A solicitation was received on June 18 from USAID/Hungary for 60 work days to analyze proposals for the establishment of a regional health insurance structure. ISTI did not submit any candidates for this solicitation.

**Fourth Quarter
(July 1 through September 30, 1997)**

Delivery Orders Executed or in Progress or Completed:

Delivery Order #800

ISTI's foreign exchange expert completed the Phase I of the assignment from May through October 31, 1997, during which he finalized a draft action plan in consultation with the senior executives of CBSL and identified tasks and schedule for phases II and III. The primary recommendations of the action plan were: an automated trading system and technical analysis system; and institutional reform and training.

In late August, the consultant met representatives of four trading systems: Financial Software; Opic; Strom; and Remus. Preliminary details on these meetings/systems were sent to CBSL on September 4, for review. The consultant also met with Wall Street System in late September. The preliminary findings on this system was sent to CBSL on October 2. Meanwhile, CBSL informed ISTI on September 11 that the consultant's next visit (Phase II) should be scheduled to coincide with the presentations by vendors in Colombo.

Consultants recommendations for a separate technical analysis system was subsequently turned down by the Central Bank of Sri Lanka.

Delivery Order #801

The final invoice for the subject delivery order was submitted to USAID on October 16, 1997. The actual expenditure for this delivery order was \$224,995.86. A total of \$22,791.14 remains unutilized from the total delivery order value of \$247,787, and will be de-obligated by USAID/Egypt.

Delivery Oder #802

ISTI's evaluation team began its activities by attending a preliminary meeting at ISTI/Arlington to prepare an outline of the evaluation report and the evaluation methodology. The team was in Manila in June/July, 1997 to conduct field surveys and interviews with USAID/Philippines, Build-Operate-Transfer (BOT) Center, the technical assistance contractor and other participants.

The preliminary draft version of the evaluation report was submitted to USAID, BOT Center and other participants for final comments, prior to the team's departure from the Philippines. The final version of the evaluation report was submitted to USAID/Philippines on August 6, 1997.

Delivery Orders Proposed by ISTI:

ISTI submitted a proposal for a delivery order for financial market development activity in Sri Lanka. This activity will be part of the USAID/Sri Lanka Sustainable Economic Growth program (SEGP) Policy Reform Support Activity (PRSA).

Fifth Quarter
(October 1 through December 31, 1997)

Delivery Orders Executed or in Progress or Completed:

Delivery Order #800

During this quarter no activities were conducted under this delivery order as the client (Central Bank of Sri Lanka) could not make a timely evaluation of the proposed trading systems. As the consultants second visit was dependent on the vendor presentations in Colombo, the second phase was postponed indefinitely. Also, the October 15th bomb explosion and its repercussions on daily activities of CBSL further delayed any immediate action.

Mr. Chuck Lucas, a former senior executive of the Federal Reserve Bank of New York, conducted a comprehensive assessment of Open Market Operations (see below) and its impact on Foreign Exchange Operations of the Central Bank of Sri Lanka, under delivery order #803 of the subject contract. Mr. Lucas's recommendations on risk management of foreign exchange activities of the CBSL, cast a new direction to the scope of the captioned delivery order, #800.

Delivery Order #802

The final invoice for the BOT Evaluation was submitted to USAID/Philippines on October 16, 1997.

Delivery Order #803

ISTI executed delivery order #803 on October 27, 1997 to provide technical and training assistance to further broaden and deepen the equity and debt market in Sri Lanka.

During the quarter under review the resident manager for the delivery order, Mr. Khursheed Choksy started work. A small local office was opened, local staff were hired and infrastructure support obtained. The following activities were undertaken during the period ending December 31, 1997:

1. Strengthening Capital Markets.
 - a. The final draft of the study on Establishing a Clearance and Settlement Guarantee Fund was completed by ISTI consultant, Mr. Charles Rubin. At the end of his visit to the field, the consultant submitted the report to the SEC and the Colombo Stock Exchange for comments. Meanwhile, the Government made budgetary provision to support the fund and to provide it with a capital base.
 - b. Based on the Strategic Plan prepared for the SEC/CSE to promote the Capital Market (through USAID funded Financial Markets Project), a Core Group representing high level market participants and senior policy makers was established. This group will examine the issues related to promoting the growth and development of the market and identify steps necessary to achieve them.
2. Development of Open Market Operations
 - a. Dr. Charles Lucas visited Sri Lanka and completed a report on Open Market Operations of the Central Bank. He provided observations and recommendations on policy issues, infrastructure and institutional issues that may be addressed in order to promote market based Open Market operations.

Proposed by ISTI and not accepted:

None

Requests Received but not Responded by ISTI:

None

ANTICIPATED ACTIVITIES:

Sixth Quarter (January 1 through March 31, 1998)

Delivery Order #800

In response to ISTI's request for an extension of the completion date of the subject delivery order on January 31, 1998, USAID/Colombo requested ISTI to terminate further activities until the Lucas report is further reviewed. USAID also informed ISTI that further assistance to the Central Bank of Sri Lanka on foreign exchange dealing and foreign reserve management will be carried out through delivery order #803.

ISTI plans to submit the contract release form and remaining expenses to USAID/Colombo during this quarter to formally close this delivery order.

Delivery Order #803

1. Strengthening Capital Markets

a. Mr. Charles Rubin will visit Sri Lanka to finalize work on the Clearance and Settlement Guarantee Fund. He will review the various technical and operational details of the fund in light of the government support.

b. Professional Training. Specialist trainers will be provided to assist the Sri Lanka Association of Securities and Investment Analysts to train financial market specialists and help them prepare for the Chartered Financial Analysts program. Mr. Seth Isaacs will be in Sri Lanka during this quarter and later Dr. Ron Copley will provide training especially for students taking the Level III examinations.

c. Systems Review. The Colombo Stock Exchange (CSE) has requested ISTI to provide a consultant to conduct an independent review of the CSE's trading system. The consultant will conduct a comprehensive review of the system including: application system; hardware; network; database; backup and restoration procedure; replication; system, application and database security; and disaster recovery plan.

2. Open Market Operations.

a. Dr. Chuck Lucas is expected to make a follow up visit to help the Central Bank to implement the recommendations leading to market based Open Market Operations. Messrs. Michael BeVier and John Biasuuci who prepared the Debt Market Action Plan for the Central Bank under the Financial Markets Project, also may participate.

SUMMARY OF DELIVERY ORDERS AS OF PRESENT QUARTER:

Delivery Order #: 800 (AEP-I-800-00027-00)
Title: Technical Assistance to the Central Bank of Sri Lanka (CBSL) in improving Foreign Exchange Dealing and Foreign Reserve Management
Period of Performance: May 15, 1997 to January 30, 1998
Cognizant CO: Stanley R. Nevin, Regional Contracting Officer/New Delhi
Project Officer/COTR: Leel Wickremaarachchi, Senior Management Specialist, Economic Growth Office, USAID/Sri Lanka
Ceiling Price: \$143,872.00
Total Expenditure as of Quarter #5: \$44,058.32

Delivery Order #: 801
Title: Capital Markets Development Project Design (Egypt)
Period of Performance: March 25, 1997 to September 30, 1997
Cognizant CO: Anne Terio, Contracting Officer, USAID/Egypt
Project Officer/COTR: Jon O'Rourke, Office of Finance and Investment
Ceiling Price: \$247,787.00
Total Expenditure as of Quarter #5: **\$224,955.86 (final/closeout)**

Delivery Order #: 802
Title: Evaluation of the BOT Program (Philippines)
Period of Performance: June 9, 1997 to August 22, 1997
Cognizant CO: Mary Reynolds, Contracting Officer, USAID/Philippines
Project Officer/COTR: Michael Gould, Office of Economic Development
Ceiling Price: \$86,166.00
Total Expenditure as of Quarter #5: **\$84,750.00 (final/closeout)**

Delivery Order#: 803
Title: USAID/Sri Lanka Policy Reform Support Activity (PRSA) - Financial Market Development Component (FMDC)
Period of Performance: November 1, 1997 to October 31, 1999
Cognizant CO: Stanley R. Nevin, Regional Contracting Officer, New Delhi
Project Officer/COTR: Leel Wickremaarachchi, Senior Management Specialist, Economic Growth Office, USAID/Sri Lanka
Ceiling Price: \$1,178,246.00 (\$600,000.00 obligated)
Total Expenditure as of Quarter #5: Pending