

Quarterly Report – Quarter 3, 2002

SEGIR Contract No. PCE - I - 00 - 99 - 00008 - 00

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Submitted to: USAID PPC/CDIE/DI

October 31, 2002



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Issuing Office: **USAID Office of Microenterprise Development (OMD)**
Task Order Number: **8**
Project Name: **Advancing Missions' Knowledge and Practice of
Microfinance and Business Development Services**
Start Date: **September 25, 2002**
Est. Completion Date: **September 30, 2005**

Objectives

The objective of this Task Order is to help the USAID Microenterprise Development Office better understand good practice in the field, disseminate knowledge regarding good practice, and contribute to the development of Mission strategies to advance the practice of microfinance and business development services. Technical assistance will be offered in the form of studies, market research, technical assessments, and training and/or workshop events.

Overview

On Friday, September 27, 2002, Mike Field and Geoffrey Chalmers from OMD/USAID and Ken Smarzik, David Knopp and Madji Sock from Deloitte held a meeting to discuss the TO and potential upcoming activities.

USAD clarified the goals of the TO which are to:

- Recommend adjustments on current projects that have a BDS or microfinance component.
- Develop training cases.
- Develop technical notes (what works and what doesn't) from a best practices perspective.

It was clarified that this vehicle will not be used as an assessment tool, rather a mechanism for OMD to develop relationships with various USAID missions. It was also mentioned that OMD is trying to diversify geographically. Regions with little activity such as Latin America will most likely receive increased attention.

The process that will be used is described as follows: for each Task Order, OMD will develop a Scope of Work and send it to Deloitte. Also, OMD will be doing most of the search for potential activities. Deloitte will have to be prepared to field consultants quickly. An OMD staff member will be a part of the teams traveling to the missions.

It appears OMD has lined up activities in the BDS sector, but is still thinking through potential activities in the microfinance sector. Upcoming BDS-related activities include:

- Bangladesh BDS: this is for the completion of the study David Knopp of Deloitte and Mike Field conducted. Remaining tasks include editing and production.
- AIMS Research: this activity will involve the review of the study and extrapolating best practices and lessons learned.
- Honduras BDS: this contract is currently managed by Fintrac and works with small farmers.

These three activities will most likely take place before the end of the year.

Activities that are more likely to take place early in 2003 include:

- South Africa: involves making recommendations on the BDS component of the AgriLinks project, and developing a case study. This project is managed by a local firm, EMI.
- Peru BDS: also involves making recommendations on the BDS component of two projects managed by Louis Berger and Chemonics, and developing case studies.
- Other potential activities include making recommendations and developing BDS case studies for projects in Senegal (DynaEntreprises managed by Chemonics) and Jordan (AMIR managed by Chemonics).

Problems Encountered

N/A

Activities to be Undertaken During 4th Quarter 2002

Await Scope of Work from USAID, then develop work plan and implement.

Issuing Office: **USAID / Amman**
Task Order Number: **816**
Project Name: **Jordan MWI Institutional Improvement Action Plan**
Start Date: **July 15, 2002**
Est. Completion Date: **February 28, 2003**

Objectives

The purpose of this project is to assist the Jordanian Ministry of Water and Irrigation (MWI), and its implementing agencies the Water Authority of Jordan (WAJ) and the Jordan Valley Authority (JVA), in the development of an Institutional Improvement Action Plan. Deloitte had earlier conducted a similar study in 1996 funded by CIDA, and the purpose of this work is to assess progress against this and other benchmark review conducted subsequently, identify immediate, short and medium-term action steps for continued improvement, and develop a detailed action plan for further institutional strengthening of these three critical sector institutions over the next five years.

Overview

In more detail, the project will focus on the following four steps:

(1) Review of Past Studies: The project team will review past studies, reports and documents including, but not be limited to the list of primary references provided to us by USAID in the prospective Task Order. We will also understand the scope of ongoing studies and the extent to which their results should be considered in the actions that we will be recommending. In particular, we will review progress and draft recommendations on the World Bank PPIAF funded study for regulatory reform of the water sector in Jordan.

(2) Analysis of Structural Reforms: The analysis of structural reforms will be comprised of the following activities:

- analysis of the results of previous studies, reports and documents;
- consultations with USAID's Strategic Objective 2 (SO2) Team members;
- consultations with senior MWI officials and lower levels as required;
- consultations with other donors involved in MWI, as deemed necessary by USAID; and
- consultations with other external entities and stakeholders if deemed necessary.

The assessment of progress will utilize the recommendations and action plan contained in the 1996 CIDA-funded Structural Adjustment and Policy Support Project as a baseline and include, but not be limited to, the assessment and analysis of water goals and objectives, legislation and institutional environment, institutional arrangements and

structure; policy and planning framework; staffing; financial framework, business planning, HR, training, and information systems.

(3) Identification of Action Steps for Continued Improvement: Based on the assessment and analysis carried out in steps 1 and 2, the team will identify the critical actions required for continued institutional improvements or changes to further strengthen MWI and its implementing agencies to become more effective in managing Jordan's water sector and water and wastewater delivery, with a focus on efficiency and financial viability.

(4) Development of Action Plan: Based on the above reviews, assessment and analysis of progress by MWI on institutional and policy reform and operational improvements, the team will prepare an Action Plan for MWI Institutional Improvement, focusing on the required immediate, short term and medium term actions (1-5 year period) for improved management of the water sector.

The Action Plan will prioritize required action steps with achievable outputs and timeframe, technical assistance (if required), level of effort, and estimated costs.

Noteworthy Accomplishments During 3rd Quarter 2002

The team worked on the first three steps of our work plan: review of past studies, analysis of structural reforms, and initial identification of action steps.

Work on the project began in early August 2002 with an initial in-country kick-off meeting. Our Team Leader, Lou Doransky, began by meeting with USAIDSO2 Team and MWI representatives to clarify expectations (including the nature and timing of key deliverables), identify critical stakeholders, arrange logistical support and agree a detailed work plan. Thereafter, Mr. Doransky's focus was to systematically review the 10 or so studies related to MWI's institutional strengthening that have been produced by various agencies (both internal and donor) since 1996 and to synthesize the findings of these studies into critical cross-cutting themes where significant gaps remain between the institutions' needs and the current reality. Systematic review of these studies was complimented by structured interviews with key institutional stakeholders. International Water Advisor Jack Farmer and Izzat Sadji of CEC, a Jordanian based engineering firm, assisted Lou on-site in these reviews and interviews.

In early September, Mr. Doransky visited the Washington DC home office to review his findings and brainstorm a suitable report structure. Subsequent efforts were directed towards analysis and synthesis of these findings and production of a draft report for initial review by USAID.

Problems Encountered

The review of past studies and the interview program were substantive efforts and the team began to understand where many of the reports and their recommendations overlapped. A comprehensive inventory of donor interventions was identified as a necessary additional data collection step. In its meetings with Ministry officials and other key stakeholders the team also garnered insight on why some prior recommendations have or have not worked in the Jordanian water sector. These insights will be particularly beneficial in developing the Action Plan for further interventions.

While the focus of this report is on institutional strengthening, it became clear after our internal Quality Assurance review of initial versions of the draft report that deployment of additional sectoral expertise would benefit the project substantially. In this regard, we discussed with USAID's SO2 team the possible involvement of Dr. Allen Eisendrath in further developing and finalizing our draft report. Mr. Eisendrath was approved for a short country visit in mid-September 2002 pending approval of a Task Order modification for his broader involvement and for extension of the period of performance to end February 2003 to allow for proper interaction with the parallel WB PPIAF regulatory study. This initial visit by Dr. Eisendrath succeeded in grounding the draft report outline and Mr. Doransky and Mr. Farmer were left to complete data collection and cross validation.

Activities to be Undertaken During 4th Quarter 2002

In the next quarter, our team will deploy Dr. Eisendrath for a further one week visit to provide in-depth analysis and cross validation of the data set, focusing in particular on ongoing interventions in the sector, to enable production of a Draft Report for review by USAID's SO2 team by Nov 7. An initial presentation of the Draft Report to the Minister will follow in mid-November. The team will then incorporate the comments of both USAID and the Minister to draw the report to an initial conclusion pending the results of the World Bank PPIAF Regulatory study.

Our intent remains to provide USAID with clear, detailed and workable intervention designs that carefully take into account local conditions. These will be coordinated with Jordan's overall water strategy and policy; and prioritized to meet the most critical needs of MWA and its implementing agencies in responding to that strategy and policy.

Issuing Office: **USAID / El Salvador**
Task Order Number: **814**
Project Name: **Evaluation of the Rural Financial Services Activity**
Start Date: **July 12, 2002**
Est. Completion Date: **November 1, 2002 (Extended)**

Objectives

The purpose of this evaluation was to assist USAID/El Salvador in determining how the Rural Financial Markets (RFM) activity (519-0435) is contributing to the achievement of Mission Strategic Objectives (SO) 1 – “Expanded Access and Economic Opportunity for El Salvador’s Rural Poor Families” and corresponding Intermediate Result (IR) – “Expanded Equitable Access to Financial, Technological, and Marketing Services by the Rural Poor”; and to recommend priority actions to increase financing available for rural poor.

Overview

The Deloitte team was tasked with conducting an evaluation of the Rural Financial Markets activity in El Salvador. Tasks included: (1) reviewing the results achieved by FOMIR/DAI, under the RFM activity to evaluate contractor performance; (2) analyzing FOMIR/DAI and the grantees that FOMIR is supporting, to determine the sustainability, local capacity building and replicability of the FOMIR model; (3) evaluating the constraints to the expansion of the Microfinance market, and (4) providing recommendations to USAID on how best to improve impact, sustainability, and cost-effectiveness of the FOMIR project, with the aim at improving the design of future activities in the microfinance sector.

Noteworthy Accomplishments During 3rd Quarter 2002

The Team reviewed background materials describing the origination of the RFM, the objectives, and the expected results of the activity. Progress reports prepared by FOMIR/DAI and other reports related to the RFM were also reviewed. Non project generated documents were also evaluated, especially those describing the microfinance industry in El Salvador and which presented data on results of the participating institutions and the sector.

The Team interviewed all key institutions participating in the RFM, with the possible exception of Calpiá, and requested their comments about the performance of the microfinance industry in El Salvador and the role FOMIR has played in strengthening their companies and strengthening the microfinance industry. The team requested their suggestions about how the support from USAID can be improved for the final year of the FOMIR/DAI contract and for later support programs should they materialize.

Finally, microfinance support and supervisory institutions were also contacted, such as the Superintendent of the Financial System, Fundamicro, CONAMYPE, ASOMI, Banco Multilateral de Inversiones, Inter-American Development Bank and others that are important players in development of the microfinance industry.

During their research, the team found that through the FOMIR activity, USAID has successfully strengthened eleven institutions offering microfinance products to the rural poor. The 11 institutions include two commercial banks, one "financiera," three credit unions and five non-governmental organizations. Altogether these microfinance institutions have served 93,409 rural and urban clients, as of June 2002. These institutions have opened microfinance products in 33 new rural locations, have 17,388 new rural micro borrowers, with 6,215 loans below \$400, and gathered \$US577,579 in new deposits. All of these institutions, except one, have increased the number of rural loans. 6 of 9 non-bank institutions show financial sustainability under current market conditions and the two commercial banks report having reached breakeven for their microfinance products. Despite the earthquake, average default rates for 30 plus days have declined by 14 %, from 9.04 % in September 1999 to 7.78 % in July 2002. The decline in average default rates is heavily influenced by the decline in default rates by Financiera Calpiá. All supported microfinance institutions (MFIs) say their operations improved because of FOMIR support.

Despite the progress, it was determined that El Salvador still has only one microfinance institution, Financiera Calpiá, that can be considered long-term sustainable. The two commercial banks both report breakeven for their microfinance products and both have recently authorized additional investments and hiring of additional microfinance products specialists, a positive sign they are moving toward microfinance becoming a regular offering in their product mix. The three assisted credit unions have each embraced microfinance products, and are now incorporating the policies and procedures learned from microfinance into the administration of their other credit products. One credit union has decided to become regulated by the SSF and is in process. Of the five assisted non-governmental organizations (NGOs), two now have good prospects of becoming regulated by the SSF within three to five years.

These are all positive indicators, but demonstrate a work in progress. The commercial banks could find their microfinance products not as profitable as other bank products and may eventually drop them. The cooperatives likewise, may decide microfinance is more difficult than anticipated and continue their primary focus on small enterprises and salary backed lending. And the 2 to 5 NGOs that have the potential to become regulated in the intermediate term have much improvement ahead. Support to the sector should continue to consolidate the gains of the past investments.

The earthquakes in January and February of 2001 created major interruptions for the microfinance institutions. FOMIR correctly detected that normal institutional strengthening could not continue, and showed appropriate flexibility in responding to the crisis. The FOMIR model has been successful for this stage of development of the microfinance sector in El Salvador.

A follow-on activity for the project should be implemented in two periods, a two-year activity followed by and a 3 to 5-year activity, to coincide with Mission strategic objective planning. Both activities should follow the FOMIR model of focusing technical assistance and training on those institutions with the greatest potential to offer deposit and loan products to the largest number of the rural poor.

A few adjustments to the FOMIR model could enhance results during the follow-on activity. Firstly, an adjustment can be made to reduce the reliance on long-term international advisors and increase the effort to build the skills of local microfinance specialists. Secondly, USAID could include within the focus of the activity components improvements in the enabling environment for microfinance and improvement in the ability of industry participants to respond to policy and regulatory entities. Finally, donor coordination should continue to be a high priority, to leverage USAID's investment. USAID is well positioned to provide vision and leadership to the donor community because of its long experience in the industry and skills of Mission personnel.

Financiera Calpiá, a successful MFI in El Salvador, has an innovative loan for small holder agricultural production financing. Few microfinance institutions around the world have mastered lending to small holders for agricultural production. Calpiá says 17 % of its loan portfolio is in agricultural credit. The Mission may want to support this innovation to help insure a positive outcome and support Calpiá in the management of the extra risks associated with providing agricultural production credit.

Problems Encountered

No unexpected problems were encountered during the implementation of this project. However, the team did request a No-Cost Extension through November 1, 2002 in order to incorporate all of USAID's inputs and finalize the modifications for the final report.

Activities to be Undertaken During 4th Quarter 2002

The project, for the most part, is near completion. The team will continue to work closely with USAID/El Salvador to make the requested changes to the final report. There has been discussion of a possible return trip for Arvin Bunker to present the team's findings to the mission. Details are currently being discussed and a final decision is expected to be made shortly.

Issuing Office: **USAID / Mali**
Task Order Number: **813**
Project Name: **Strengthening the Capacity of the ECOWAS Office of Accounting and Financial Management**
Start Date: **August 1, 2002**
Est. Completion Date: **April 30, 2003**

Objectives

The objective of this Task Order is to improve the capacity and overall level of performance of the ECOWAS Office of Accounting and Financial Management.

Overview

Tasks for this project include (1) the development of a detailed work plan outlining the different tasks to be accomplished and the expected results and indicators for measuring progress; (2) procurement and installation of an integrated computerized accounting and financial management system, including associated office equipment; and (3) training of the ECOWAS Office of Accounting and Financial Management staff in computer and software use for accounting and financial management purposes.

Noteworthy Accomplishments During 3rd Quarter 2002

The team made its first out of three or four trips to Abuja, Nigeria during the month of September. During this trip, the Deloitte Team conducted a Needs Assessment to determine the hardware and software needs of the ECOWAS Department of Accounting and Financial Management. This was done through:

- Interviews with accounting staff,
- Reviews of financial documents, donor agreements, and
- Perusal of the accounting ledgers in order to determine the type of accounting software that is needed to suit the needs of ECOWAS operations.

After completing the assessment, the team identified three qualified vendors in Lagos who sold and serviced internationally recognized accounting software packages that could potentially suit the needs of ECOWAS. All three vendors sent representatives to Abuja to demonstrate the software for the ECOWAS staff and the Deloitte Team. Final decisions have not been made as to which software will be purchased.

Problems Encountered

No unexpected problems were encountered during this quarter. Areas of potential concern include:

- Potential delays in the final decision for accounting software due to the need for final approval and buy in from the ECOWAS Board of Directors. The team will continue to work closely with the ECOWAS team to assure that all the necessary information is available to the board in making their decision
- As per the quotes obtained from software vendors, it is possible that we may exceed the amount currently budgeted for the accounting software. Further evaluation is being conducted to determine how to remain within the current budget.
- Although one of the project goals is to establish Internet connections, the team found that they were already in place. A suggestion was made to ECOWAS to utilize the existing connections for the new system and reallocate the funds set aside in the budget for this task to support the purchase of the accounting system.

Activities to be Undertaken During 4th Quarter 2002

Our objectives for the next phase include:

- Finalizing the selection of software package and vendor
- Determining a supplier for the necessary hardware and procurement of equipment
- Ensuring ECOWAS has completed all agreed upon tasks before installation of the system

In summary, the Project is moving ahead according to plan and has made great progress in working with the ECOWAS Accounting and Financial Management Office. Important steps have already been achieved, and we expect this trend to continue as the team works closely with ECOWAS to select and procure the hardware and software during the next quarter.

Issuing Office: **G/EGAD/EM (now EGAT/EG)**
T.O. No.: **IQC No. PCE-I-00-99-00008-00, TO #1**
Project Name: **Financial Sector Review and Strategy**
Start Date: **September 24, 2001**
Est. Completion Date: **November 30, 2002**

Objectives

The specific objectives of this T.O. include:

- Review the reform of the International Financial Architecture
- Review Domestic and International Players
- Review USAID's Financial Sector Portfolio
- Assessment of EM's role
- Development of Options for EM
- Conduct a forum

In the second quarter, 2002, the task order was modified to provide additional support on one key issue in financial sector development: SME Finance. The objectives of the modification were to support the preparation by EGAT/EG of three case studies on innovative practices on lending to small and medium enterprises.

Overview

During the first quarter, 2002, the first four tasks of the scope of work were completed. During the second quarter, a draft report on the options for the Office of Emerging Markets (now the Economic Growth office) was prepared and submitted. Edits and refinements to that draft Task 5 report were made during the third quarter. The majority of the original level of effort for those tasks were expended. Accordingly, the effort in the third quarter was dedicated to the statement of work in Modification Number 1, to assist to prepare innovative practices on lending to SMEs.

Noteworthy Accomplishments During 3rd Quarter 2002

- Three to four day site visits to Uganda, South Africa, and Chile were conducted
- Five case studies were prepared, instead of three, in addition to case study on the American Bank of Kosovo already prepared by EGAT/EG
- A comprehensive document was delivered containing the six case studies, to be posted on the USAID website
- A revised draft of a decision tool which EGAT/EG could provide to USAID missions when considering interventions in SME Finance was delivered and circulated for comment.

Problems Encountered

Discussion of options necessitated significantly more time than originally anticipated. It is now confirmed that a forum for discussion of USAID financial sector strategy will be held in mid-December, 2002 and that the forum will be significantly larger in scope than originally anticipated. The task order was extended to November 30, 2002 and will likely be modified to further extend the completion date.

In addition, regarding the scope of work under Modification Number 1, the original overall summary report, as described in the contractor's final revised proposal, was determined to be not as useful deliverable as a decision tool for USAID missions when considering interventions in SME Finance. Accordingly, a draft decision tool was developed. Due to the comprehensiveness of the tool and the desire by the CTO and the team to put that into HTML format to make the tool easily accessible by mission personnel, the deadline for production of the tool was extended to November 30, 2002. The extended deadline also will allow EGAT/EG to obtain comments on the decision tool from USAID and IFC colleagues.

Activities to be Undertaken During 4th Quarter 2002

During the 4th Quarter, 2002, the project team will undertake the following activities:

- Participate in the InterAmerican Development Bank Experts Meeting on SME Finance in October, 2002
- Continue revisions and production in HTML format of the decision tool for USAID missions to use when designing interventions to improve access to SME finance
- Continue to discuss proposed options for the Office of Economic Growth to consider as important roles and activities for the next 10 years
- Hold a day and a half workshop or forum to review USAID financial sector activities and the strategy with SEGIR FS contractors, USAID mission and bureau personnel, and other donors.

Issuing Office: **EE/MT/FSP (now EE/EG)**
T.O. No.: **IQC No. PCE-I-03-99-00008-00**
Project Name: **Alliance for Financial Stability/Partners for Financial Stability (PFS-II)**
Start Date: **March 1, 2002**
Est. Completion Date: **April 30, 2004**

Objectives

The original objectives of this T.O. were:

- Develop common definitions and baseline principles for both country and regional issues related to financial sector development and stability in the Assistance for Eastern Europe and the Baltics (AEEB) graduated countries
- To work under the direction of Program Objective Team 4.1 (Special Initiatives) of the E&E Bureau's office of Market Transition to formulate the essential elements of a "street ready" RFA for a successor to the Partners for Financial Stability program for E&E/OP by June 1, 2002
- Brief/debrief AID/W and others on this new approach to our work with AEEB graduate countries.

In September, 2002, the task order was modified and the project name was changed to Partners for Financial Stability (PFS-II). The new objectives are to establish a Secretariat to support USAID/EE/EG in coordination between and among partners in a range of administrative and strategic planning areas.

Overview

Due to the urgency of preparation of a Request for Application, the tasks in the original statement of work were to be undertaken in the context of development of the RFA and not as specific tasks on to themselves. In particular, the demand survey was reduced to a desk review of 2001 Mission Performance Plans, Economist Intelligence Unit Reports, and EU Commission Regular Reports.

The model chosen for the RFA was a Leader with Associate type award. The team, consisting of two senior financial analysts and a junior analysts, split into two groups. With E&E/MT/FSP counterparts they undertook each task, based upon the table of contents of the RFA, to research, develop, and draft key sections of the RFA.

On April 4, 2002, after one month of effort, the E&E Bureau Deputy Assistant Administer, decided that an RFA would not go forward and the level of effort of the team was redirected to the design of PFS-II and the development of amended and restated cooperative agreements with existing PFS partners.

Critical components of PFS-II, reflected in these amended and restated cooperative agreements were:

- The honed focus of PFS on assisting graduated countries to meet EU accession requirements for financial sector reform
- The addition of a PFS-II secretariat to support the technical review committee
- Enhanced technical review committee roles and responsibilities
- The expansion of the existing PFS website to have additional document posting and other functions to foster a more collaborate environment for all PFS partners/implementers

The September, 2002 modification provided for the contractor to assume the secretariat function and undertake the following tasks:

1. Administration, Meeting & Logistics Support.
2. Monitoring Upcoming Programs
3. Archiving & Document Management
4. Web-site coordination, updating & dissemination of results
5. Printing, copying & graphic design
6. Senior management support—strategy & planning

Noteworthy Accomplishments During 3rd Quarter 2002

- Supported July 25 technical review committee meeting
- Completed paper and electronic filing system
- Scheduled Regional Workshop in Budapest
- Supported CTO in determination of objectives, preparation of agenda, identification of participants, and collection of materials for conference booklet. Produced plan for conference.
- Produced calendar of events
- Began preparation of past projects database for analysis of PFS activities by country and by technical areas
- Produced introductory speech for anti-money laundering project in Latvia

Problems Encountered

Performance of the secretariat function relies heavily on cooperation of the implementing partners. The process of obtaining information needed from the implementers and interaction with them as bumpy in the first quarter, due to project start-up.

Activities to be Undertaken During 4th Quarter 2002

- Complete database of past projects and analysis of how PFS funds were expended
- Invite participants, produce relevant presentations, and collect materials for the Annual Regional Workshop in Budapest, November 6 and 7, 2002

- Moderate key sessions of the Workshop
- Produce record of proceedings of the Workshop

Issuing Office: **USAID/Budapest**
Task Order Number: **PCE-I-00-99-00008-00**
Project Name: **Macedonia Financial Sector Strengthening Project**
Start Date: **5 August 2002**
Est. Completion Date: **August 2005**

Objectives

This Activity will provide assistance to the financial sector in Macedonia in the following areas:

- assistance to the commercial banking system
- assistance in investment promotion and in the building of a viable capital market
- assistance in accounting reform and strengthened financial reporting among enterprises
- assistance in pension reform to include strengthening of the pillar one system and design and planning work for a pillar two system, and
- assistance in a range of other areas to include insurance supervision, legal reform, SME finance, and NBFIs development

The Macedonia FSS project will support USAID/Macedonia's Strategic Objective 1.3 – Accelerated Development and Growth of the Private Sector. The SO 1.3 is linked to other initiatives currently occurring in the region, however, this activities' Immediate Results consists of: I.R. 1.3.1, Bank and Non-Bank Financial Institutional Strengthened.

Overview

The Macedonia Financial Sector Strengthening project was kicked off on 28 August 2002 in Skopje, Macedonia. The project team is composed of the following long term advisors:

- Robert Singletary, Chief of Party and capital markets advisor
- Joe Fischl, Accounting expert
- Phil Mistretta, Banking expert
- Mitch Wiener, Pensions expert

Due to the national elections held in Macedonia on 15 September 2002, the due date for the work plan has been postponed in order to compensate for the change in the counterparts at the major ministries, as well as a break in activity during the election period. In addition to the long term advisors, a number of short term experts will assist on specific areas over the course of the project. The finalized work plan is anticipated for the end of November, in which the detailed outline for the project will be set and agreed to by the project members and USAID.

Noteworthy Accomplishments During 3rd Quarter 2002

Apart from the brief suspension of activity during the election period, various accomplishments that occurred during the start-up phase of the project include the following:

Pensions:

- Established contacts with pension counterparts in the PSA, PDF, other USAID projects; and,
- Began our formal donor coordination role for activities of the Pension Supervision Agency (“PSA”);

Banking/Non-Banking:

- Established contact with commercial banks and began work with the National Bank of the Republic of Macedonia (“NBRM”).

Accounting:

- Established contacts with accounting counterparts in the Ministry of Finance and the accounting profession and explored a strategy for creating an SRO;
- The Soyuz, the mandatory accounting association was dissolved by the Parliament; this complements our strategy of establishing an accounting SRO.

Capital Markets:

- Established contacts with the Macedonian Securities and Exchange Commission (“MSEC”) and provided advice on several pressing issues, including the mandatory listing of shares on the Macedonian Securities Commission (“MSE”);

Problems Encountered

No problems have been encountered other than a somewhat delayed start up of the project due to the national elections. There is some concern that assistance commitments by the World Bank in the pension area will be delayed, thus threatening the critical path analysis agreed to by the donors. We expect that through effective co-ordination, this should be manageable.

Activities to be Undertaken During 4th Quarter 2002

Overall, the team has made substantial progress since the project’s inception, establishing relationships with almost all counterparts with substantive work with intermediate results already achieved. Progress has been made on all fronts of the Task Order: pension, banking, accounting, capital markets and insurance sectors.

The following major activities are anticipated to be carried out during the 4th Quarter.

- We expect that the finalized work plan for the project will be delivered to USAID by end of November 2002;
- We anticipate that our accounting SRO, work on the development of the accounting certification exam, and translation of a Financial Accounting textbook will be completed;
- Co-ordination of the PSA's tender process to select 2 private pension companies responsible for asset management. In addition, the formulation of the public education campaign will be underway; and,
- Public education campaign for the MSE regarding mandatory listing - this campaign is designed to educate company management on the legal requirement to list on the MSE

Issuing Office: **USAID / Romania**
Task Order Number: **IQC No. PCE-1-00-99-00008-00**
Project Name: **Financial Market Reform (FMR) in Romania**
Start Date: **October 1, 2001**
Est. Completion Date: **September 30, 2003**

Objectives

- Break the current vicious cycle of poor capital market development in Romania by simultaneously addressing key issues
- Draft regulatory framework supporting capital market activities
- Initiate efforts to introduce supervision and enforcement of relevant laws and regulations
- Continue to work with key market intermediaries comprising Romania financial market.
- Promoting further development of the market structure and broadening product offerings

Overview

The root problems continue to cause a multitude of symptoms that, in aggregate, have continue a dearth of investment and a slow economic growth. The vicious cycle hinders Romania's economic potential and integration into the European Union.

The project core remains the transformation of the RASDAQ trading platform, organized with USAID assistance in 1197, into a viable stock exchange. The problem, however, is not RASDAQ's design, structure or technical capabilities. Rather, the problem has been the environment in which it operates. The market's, heretofore, legal ambiguity, and ambivalent regulation are being change through the new securities regulations developed with FMR assistance working in collaboration with RASDAQ, and the CNVM.

The project on-sight work began in early November 2001 with a core Deloitte team of four long-term consultants. In the last quarter, the project received the assistance of three STTA consultants with assignments in drafting regulations (Dick Smith); fixed income markets (Ann Richards) and market operations and listings (Rick Dvorin). The FMR Project Team continues to receive the full and active support of the Deloitte's Touche trained staff in Bucharest.

In the past quarter, the work plan has concentrated on three "work streams": 1) assisting CNVM to draft new regulations in line with Emergency Ordinances which were announced near the start of the project; 2) advising RASDAQ on a process for de-listing and/or segregating moribund and non-compliant firms from its lists; and 3) a series of ad-hoc assistance efforts for a number of the counterpart entities, including white papers delivered to the Parliamentary Committee, analysis of key regulatory issues for the

CNVM and other stakeholders, etc. This last category of assistance has been important in furnishing “quick hits” – demonstrable evidence of tangible progress that helps to build momentum for reform and reinforces the Team’s (and USAID’s) credibility in the market.

Noteworthy Accomplishments During 3rd Quarter 2002

The following pages summarize this quarter’s activities and accomplishments:

- **Drafted six new capital markets regulations** – Over the past quarter the FMR Team has been working actively with CNVM to draft new regulations pertaining to share registration and ownership, broker-dealer operations, the role of investment funds and other issues that were addressed in the Emergency Ordinances passed in early April of this year. CNVM plans to send each draft to market participants for their comments, at the Team’s suggestion.
- **Sunshine period for comment draft regulations** - At FMR recommendation, CNVM provided four weeks “sunshine” period for comment by market participants on new regulations. Thus, through this activity we are not only playing a lead role in creating a new and better regulatory framework for Romania’s financial markets, but we have also succeeded in improving transparency through the use of this “sunshine period.”
- **Proposed improvement of the mandatory purchase transactions procedures** – Upon the request CNVM, FMR team wrote white paper discussing the implementation of mandatory purchase transactions by majority shareholders. The FMR proposal was meant to improve the unclear and unfair conditions of the new securities law applied to the market participants.
- **Designed a procedure for suspending non-compliant companies from RASDAQ** – As a result of the working collaboration between FMR and RASDAQ, based on the Feasibility Study #1 suggestions, the STTA Rick Dvorin and FMR provided RASDAQ management with advice on suspending non-compliant companies from trading. This action will impact in “cleaning up” the market, and give a signal to investors that rules started to be enforced.
- **Suspended a first set of 170 non-compliant RASDAQ companies** – As advised by FMR, RASDAQ identified and suspended a first set of 170 non-compliant companies. This process will give a strong signal to the other RASDAQ companies to take into consideration a stronger compliance with the capital market rules.
- **Provided RASDAQ with assistance on listing regulations and surveillance** – the STTA Rick Dvorin and the FMR team provided RASDAQ with advice on preparing the new listing regulations and on surveillance procedures. As a result

of the FMR advice the market will have set of first investors protection and disclosure procedures

- **Prepared a report containing recommendations for RASDAQ transformation** – the STTA Rick Dvorin and the FMR team prepared a set of specific recommendations for the RASDAQ management to use for the market restructuring process, proposing specific steps to be taken on the short and then on the long run. The recommendations will serve as guidelines and strategy for RASDAQ on its day to day work, strengthening the authority of the institution among the issuers and brokers, and its position in front of CNVM
- **Provided training for the CNVM registry department** – the FMR team provided training for the CNVM registry staff in order to increase their level of knowledge. Most of the commission personnel is very new in the institution and inexperienced. The FMR work helped the CNVM staff to better understand the typical functions of a securities registry system.
- **Prepared a report for USAID / CNVM regarding the reformation of the securities registration system** – Because the Romanian securities registration system suffers of a significant lack of credibility since its inception, which affected the image of the market as a whole, the STTA Dick Smith and the FMR team prepared a very complex report containing a model for the registration system and recommendations on how to enhance and enforce the regulations in order to build the confidence in the market.
- **Created a report on the bond market development** – the STTA Ann Richards and the FMR team prepared a report on the government, corporate and municipal bond markets development. The paper identifies the current issues related to each instrument, and provides a set of recommendations meant to enhance the development of the markets.
- **Continued to assist the BSE in identifying new instruments to trade** - in order to attract new listings and implement new financial instruments, FMR continued to support the BSE to study, choose, and implement new products and services including corporate bonds, municipal bonds, mortgage bonds, preemptive rights, margin trading, short selling, local depository receipts, and derivatives. Also the team wrote white papers on most of these subjects, which will enable the BSE staff and its members to better understand the benefits and efforts related to these instruments.
- **FMR and BSE organized a BSE members roundtable** – As part of the common action plan with the BSE, FMR organized a roundtable, with the BSE members, regarding the “Introduction of new financial instruments on BSE”. This will help BSE & FMR to assess the attractiveness of new financial instruments among the brokers.

- **FMR and BSE organized a BSE listed companies roundtable** - In order to assess the attractiveness of the new financial instruments to be introduced on the BSE, a listed companies roundtable has been organized by FMR, for presenting “Alternative financial instruments for companies through stock exchange”.
- **Continued to assist the BSE in attracting new companies to list** – Based on the BSE – FMR marketing plan, the FMR representatives met with the representatives of the three of the four Eurobond issuers (Transelectrica, National Road Administration, CFR Marfa) and some of their advisors (JP Morgan and Deutsche Bank) in order to discuss the potential listing of a tranche of those issues on the BSE. The team and the BSE reps. had also meetings with non-listed companies, (Orange Romania and Electrica) in order to attract them to list their shares / bonds on the BSE.

Problems Encountered

No unexpected problems were encountered during this quarter. Ongoing areas of concern include a lack of institutional capacity within CNVM and a relative lack of communication among market participants – a gap which the FMR Project is working to fill.

Activities to be Undertaken During 4th Quarter 2002

Although the team has made great progress on the FMR project to date, there are still several tasks that must be accomplished. This section summarizes the key activities in the work plan for the next quarter. As a team, FMR will focus on the following issues:

- **Revising the project work plan and budget for Year Two** – As the FMR Project enters its second year, the original RFOP and corresponding work plan have to some degree been “overtaken by events” – the Team and USAID must redirect their activities somewhat to remain responsive to the needs of the market and maintain our ability to achieve tangible and lasting impact. In late October and early November, the Project Director and Project Coordinator will work with the field team and the USAID CTO to draft a new, practical work plan that achieves the project’s original objectives through focused and efficient activities. A revised budget will be submitted to USAID in conjunction with the new, approved work plan. The budget will remain within the original amount of funds allocated, but will likely shift funds significantly among expense categories.
- **Meeting other non listed companies to bring on the BSE**
- **Meeting listed companies to attract to issuing bonds**
- **Make the roundtable on the development of the capital market, bringing together the government representatives and the key decision makers of the**

issuers, market participants, and the regulators, in order to discuss benefits and obstacles of:

- privatization and financing opportunities on the capital market, for the government owned companies
- setting up the secondary market for government securities on the BSE
- the issue of the fixed income instruments
- enforcement vs. over-regulation
- **Assist and advise RASDAQ on its legal transformation**
- **Assist and advise RASDAQ on its suspension / de-listing process**

In summary, the Financial Markets Reform Project is moving ahead according to plan and has established USAID as a key stakeholder in the reform process. Important impact has already been achieved in some areas, and we expect this trend to continue and expand into the next quarter.

Issuing Office: USAID/West Bank & Gaza
T.O. No.: 802
Project Name: West Bank and Gaza Accounting and Auditing Sector
Program
Start Date: September 29, 1999
Est. Completion Date: October 31, 2002

Objectives

The specific objectives of this T.O. are as follows:

- Support the development of self regulatory accounting and auditing organizations;
- Support the adoption and use of internationally accepted accounting and auditing standards in the Palestinian Territories;
- Develop university curriculum that reflect the new standards and support the implementation of the curriculum;
- Develop continuing education courses;
- Develop a system for administering a CPA exam or its equivalent; and
- Develop a code of ethics for both professions and methods of enforcement that re-enforce the self-regulatory nature of the professions.

Overview

The Program experienced some of its best results during Quarter 3, 2002.

Remaining closely involved at all levels and across all boundaries, the Program continued to deliver for the improvement of the Palestinian Accounting and Auditing Sector, growing its list of value-adding results. Deliverables were good, strength of activities was broad-based and there was lots of momentum both internal as well as amongst the constituencies. Powerful work products confirming a commitment to assist all Palestinians involved in accounting and auditing were placed into the environment.

Noteworthy Accomplishments During 3rd Quarter 2002

Noteworthy accomplishments of the Quarter included:

- *International Public Sector Accounting Standards (IPSAS) were published in Arabic by the Palestinian Association of Accountants and Auditors (PAAA), another solid, future oriented investment*
- *Governmental Auditing Standards & Standards for Internal Control were also published by the PAAA, as a perfect companion to the IPSAS*

- ***Educational products expanded greatly.*** Additional teaching aids were introduced – library resources continue to be upgraded. More distance learning resources– cost effective and ever ready – were introduced
- ***Media and public awareness ensured and extended*** the presence of activities
- ***Membership in the International Valuations Standards Committee was awarded*** to the PAAA, an important “nod of the head” to the PAAA.

By sharply focusing on responsiveness to needs, the Program continued to reach thousands of enterprises in public practice and public service, and at schools, building a powerful portfolio of resources for practical use. As a result, a foundation has been established --- signposts pointing the right direction have been firmly placed through out the sector.

The Program is well positioned to continue posting effective, consistent, demonstrable results – in an efficient manner. It is at the heart of economic reform and has an exceptional local national team, highly motivated people with many of the skills, a great deal of the experience and all of the commitment to make the most out of any challenges and all opportunities, when combined with technical expertise and innovation capabilities. This Program continuously adds to its record of tangible achievements under the most difficult of circumstances.

The following section describes activities conducted during the quarter in more detail.

Training

Moving from strength to strength in providing CPE to its members the, PAAA delivered more activities to more people, ever widening it appeal. During the course of its development, the PAAA has been active principally in Gaza. Listening and responding to the needs of stakeholders, the PAAA board took a decision to become more active in the West Bank. A rollout plan for PAAA sanctioned CPE started in Jerusalem. ***Slightly over 1 man-year of training was provided, to date, an impressive total of over 38 man-years of training have been provided.***

Materials for teaching International Public Sector Accounting Standards and Governmental Auditing were completed. Ownership responsibility for presentation will be assumed by the PAAA.

Progress in training activities is not limited to the Program or the SROs alone – particularly encouraging has been an increase in training offering from third parties, both private ventures as well as universities. Increased availability in preparatory courses for the ASCA – Arab CPA and the IMA’s CMA/CFM – many people are rising to the challenge of continuing professional education.

Directed learning - Educational Reform

Early in the Program, extensive consultations and assessments of the likely impact it would have were undertaken – all indicated that an active dialogue with and assistance to academia was very important. Many new items were introduced underscoring the vital importance of the education community, as they will set the tone of the future.

An ambitious goal, tasked to the Program was to gather textbook resources for the universities – resources particularly strong in the area of international standards. Off the shelf resources to accomplish this goal remains underdeveloped. Continuing to provide steady results and opportunities for propagation of knowledge, the Program developed bridging work papers for seminal US-GAAP & US-GAAS based English language accounting and auditing text books that showed how and where International Accounting Standards, IMA's Statements on Management Accounting and International Standards on Auditing specifically fit in. The Program expanded this reach to Arabic language texts – six additional books were located and a process of modification was undertaken. Through this activity plus the results of a literature survey undertaken – combined with the Standards development activities internal to the Program and its policy of encouraging local professors to publish using international standards – the Program has provided twenty- three books to each Palestinian University with an active program in Accounting – there are currently six such institutions.

Curriculum modification showed great movements, again exceeding expectations in several areas. International Standards are well blended into the educational process – standards on accounting, on auditing, on valuation, for governmental accounting - and very importantly ethical practices. Program developed courses, the senior seminar on IAS and ISA, plus the “internationalized” basic auditing – continue to be on the list of required courses. Additionally the Program made preliminary agreements to develop an Advanced Auditing Course – for launch later in this year. Cross-utilization of Program efforts and engendering of the spirit of volunteerism was also noted.

Regulatory Reform - Law

The pathway for stimulating debate on how to move ahead with positive dialogue for the development of laws governing the professions of accountancy and auditing and their operating environment continues to be built – only the best resources are being applied.

Maintaining an information program, the Program distributed and discussed with several of the most influential personalities several very important items. Distributed were several USA state CPA laws and Senator Sarbanes' bill for improvement of the quality and transparency of financial reporting and independent audits. The intended objective of this activity is to place leading edge materials within the reach of those who will be proactive when the time to change comes. Through the use of these documents, building upon prior activities – the Program points to and reinforces the need that credible, empowered institutions are an absolute necessity.

SRO & Standards

Several PAAA members consulted with the Program – an analysis was made, a roadmap drawn. Having previously worked on the Palestinian adaptation of the International Accounting Standards as well as managing production of multiple other books - the PAAA was very well prepared, both technical and operationally – to act. Production of an Arabic language – Palestinian adaptation of IFAC’s International Public Sector Accounting Standards (IPSAS) was tasked to a working group of the PAAA Standards Setting Committee.

Further to complement the IPSASs – and raise capacity to a further level permission was obtained from the USG – Government Accounting Office for translation of the Governmental Auditing Standards (the Yellow Book) & Standards for Internal Control. Two Program associates were assigned to assist the PAAA , tracking to plan – motivated – working with the SRO – both books were produced and available for distribution within the quarter – from concept to completion – an absolute record time for this volume of material.

Both of the SROs are moving their perspectives, in their own way and at their own speed towards more of a “relationship mentality” recognizing that membership is not only about legalized mandatory requirements, it is a whole series of interactions.

Media

Media exposure remained very good. The Program was able to keep its message in front of the public. All of the major activities of the Program enjoyed appearances in the press. Additionally during the quarter alternative messaging methods were applied – a number of “email” news releases were made – additionally faxed information sheets were sent out. These activities allowed focus groups to be addressed directly – in addition it allowed several international groups that might not otherwise have access to local papers – for example regional SROs to be informed.

Awareness Promotions

There were many significant accomplishments during this quarter – there were many persons involved. As noted above local national ownership - assumption of responsibility – continues to move to higher levels. In keeping with this – the Program continued to recognize this by presentation of items of permanent remembrance.

Both of the SROs Board of Directors were recognized for their involvements with the Program over the last three years. Additional special recognition was provided to those involved in the very large task of preparation of the International Public Sector Accounting Standards. The Palestinian Association of Accountants and Auditors publications committee was also recognized for its efforts.

Problems Encountered

No serious problems were encountered.

Activities to be Undertaken During 4th Quarter 2002

The project will close on November 30, 2002. The team will facilitate proper shutdown of the project.