



Challenges and Trends in Financial Sector Development

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Why Financial Sector Development?

1. Reduces risk and promotes stability
2. Leads to increases in investment and economic growth
3. Allows for provision of basic needs, including education, health, and infrastructure





Recent Trends Impacting Financial Sector Development

- Globalization
- Financial sector liberalization
- Crises and natural disasters

Key Constraints to Financial Sector Development in Developing Countries

1. Weak (or non-existent) financial institutions:

- Central banks and other regulatory agencies
- Commercial banks
- Non-bank financial institutions (including insurance companies, leasing agencies, etc.)
- Securities exchanges
- Support institutions, such as credit bureaus and rating agencies



Key Constraints to Financial Sector Development in Developing Countries

2. Weak or inappropriate laws, policies, regulation and enforcement

- Leads to ineffective financial intermediation
- Discourages private sector investment and stifles the commercial sector
- Encourages fraud and corruption and opens door to money laundering and terrorism



Chemonics Pillars to Successful Financial Sector Development

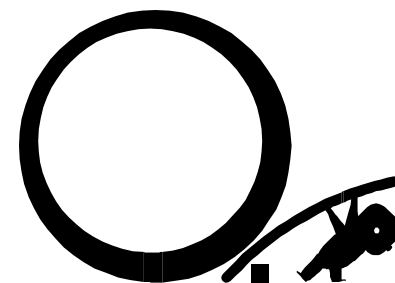
1. Emphasize good governance and leadership
 - Build confidence in markets by emphasizing transparency, accountability, responsibility and fairness
 - Promote leadership development at all levels of financial sector institutions, with emphasis on decentralized, ethical leadership (e.g. Afghanistan)



Chemonics Pillars to Successful Financial Sector Development (cont.)

2. Leverage private sector resources

- Development Credit Authority (i.e. Mexico, Uganda, Egypt)
- Public/Private Partnerships



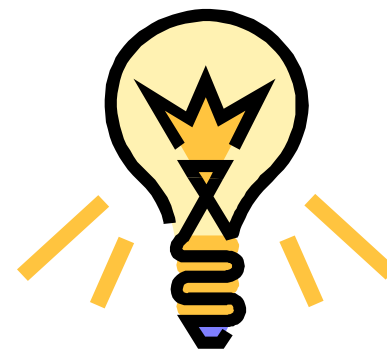
3. Build local capacity and political will to effect positive change

- Demand-driven training
- Customized technical assistance packages



Chemonics Pillars to Successful Financial Sector Development (cont.)

4. Encourage creativity and innovation while building on past lessons



- Don't reinvent the wheel; but consider local culture and environment
- Capture and disseminate best practices; adapt as appropriate & feed back into knowledge management system

Jordan AMIR— Achievement of Market-Friendly Initiatives and Results

- Assisted 4 partner microfinance institutions contract over 50,000 loans.
- Broadened and deepened the financial markets by building:
 - modern securities market,
 - strengthening financial institutions,
 - developing new products, e.g. housing, insurance, SME
- Supported the establishment of public-private partnerships in economic development
- Implement appropriate best practice solutions to improve the policy and institutional environment to foster greater private sector-led growth (e.g. framework for comprehensive credit bureau)



Uganda SPEED— Support for Private Enterprise Expansion and Development

- Developed cash flow-based finance training program to expand lending to small and medium enterprises (SMEs)
- Conducted loan officer training and mentoring
- Attracted banks and MFIs through the use of a \$30 million DCA guarantee fund
- Nurtured links to expand outreach (e.g. MFIs and banks and insurance companies)
- Offered seminars to promote and advocate a positive environment for leasing



Looking Ahead: Opportunities by Region

○ Asia

- Strong ICT infrastructure and dense populations
- Potential to strengthen insurance and pension markets
- “Asian Tiger” rebounding with improved debt structures
- China becoming more open and market-oriented



Looking Ahead: Opportunities by Region

○ Latin America/Caribbean

- Potential for impact and expansion of existing financial institutions to rural areas
- Commercial financial institutions increasingly interested in microfinance and SME finance
- Credit bureaus being created; remittances and dormant savings can be mobilized into investments.



Looking Ahead: Opportunities by Region

○ Eastern Europe and the Former Soviet Union

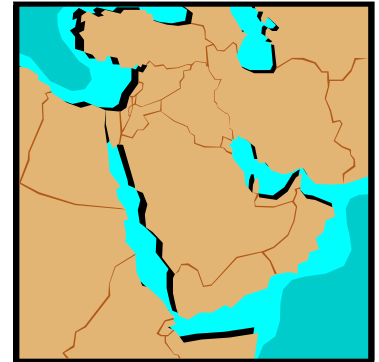
- Potential for impact and expansion in housing finance, insurance, leasing and factoring
- Growing SME sector (potential for DCA)
- Potential to build on or merge existing capital markets infrastructure, including for bond markets



Looking Ahead: Opportunities by Region

○ Near East

- Potential for expansion and impact (especially with female entrepreneurs)
- Need for cash-flow based lending to support SMEs
- Greater need for privatization financing
- Jordan now approved for US pension investments



Looking Ahead: Opportunities by Region

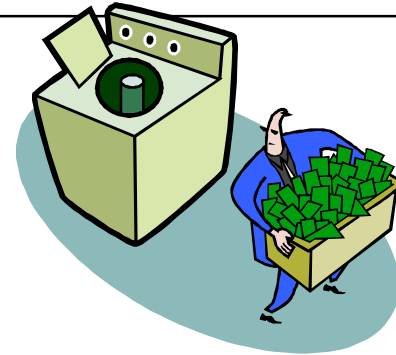
○ Africa

- Potential for impact on poverty, especially in rural areas
- Potential to use DCA to entice commercial finance institutions to lend to SMEs and agribusinesses



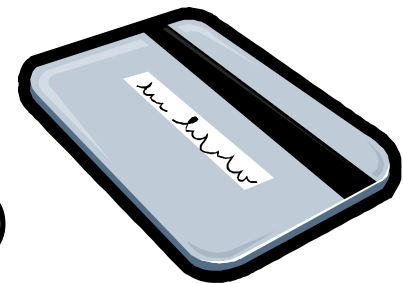
Emerging issues in financial sector development

- Combating money laundering and terrorist financing



- Strengthening corporate governance and accountability (Barings Bank, Enron, Arthur Andersen, etc.)

- Leveraging technology (ATMs, electronic funds transfers, smart cards, etc.)





Thank you!