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**MONEY AND CAPITAL MARKET DEVELOPMENT:
THE OECS EXPERIENCE**

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THEME: CAPITAL MARKETS IN REGIONAL DEVELOPMENT

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THE ROLE OF THE ECCB IN DEVELOPING THE FINANCIAL SYSTEM

Over the past three to five years the Eastern Caribbean Central Bank (ECCB) has undertaken several initiatives in an effort to promote the development of Money and Capital Markets in the Organization of Eastern Caribbean States OECS sub-region. In this effort the Central Bank is acting as catalyst for the development of the financial system and is playing a central role in the development of the Money and Capital Markets. This role is consistent with Monetary Authorities worldwide and throughout history, and is even more incumbent on the ECCB as a multi-state Central Bank for countries in a single currency area, with small open economies, a very rudimentary financial system, and with a lack of integrated markets and economies. This role is also in accordance with the ECCB's Charter which sets out as part of the Bank's objectives in Article 4 (3) and (4) of the 1983 Agreement establishing the Bank, the following; (3) "The purposes of the Bank are... to promote credit and exchange conditions and a sound financial structure conducive to the balanced growth and development of the economies of the territories of the Participating Governments"; and (4) "to actively promote through means consistent with its other objectives the economic development of the territories of the Participating Governments." In addition, the Agreement as amended at Article 42 (1) (d) also states, "The Bank may with the approval of Council, administer or participate in corporations or schemes established for the purpose of promoting the development of money, capital or securities markets in the territories of the Participating Governments." Therefore, like many countries both developed and developing, a significant portion of the responsibility for and the lead role in the development of Money and Capital Markets in the ECCB area has been vested whether by design or by default in the Central Bank. In fact, in most of the ECCB member territories, the Central Bank is the only

institution with any such legal mandate in the area of Money and Capital Market Development, except for a few of the territories which also identifies a role for the Development Bank to "Foster and facilitate the Development of Money and Capital Markets". However, the responsibility and the lead role in the Development of the Financial System is not the exclusive domain of the ECCB. The Participating Governments, in particular, the Ministries Finance which in conjunction with the ECCB represents the Monetary Authorities in the ECCB member territories, must also play a central role. Nevertheless, the role of the ECCB and the Participating Governments and in some cases the Development Banks by no means understates the role of the participants and ultimate beneficiaries of the development of these markets, be they the household saver, the business enterprise, the financial institution, as well as, the individual or institutional investor. Therefore, the role of the ECCB in this area is simply one of a lead institution or catalyst by virtue of its position in the financial system, its technical and financial resources, its integrated approach to development of the Financial System, and its objectives as outlined above. Consistent with the role of catalyst the Central Bank is playing in greater role particularly in the early stages of development of these markets, and will strategically reduce its involvement and the nature of its activities in these market once its catalytic or lead role has been fulfilled.

This role, therefore as we have conceptualized it encompasses the rationalization and restructuring of existing institutions and the establishment of new ones, the introduction of new financial instruments, products and services, and the creation and development of efficient and effective markets for these instruments, products, and services. The present financial system seems to suffer from two major deficiencies, the fragmentation into eight separate markets with the attendant loss of economies of scale in the cost of mobilizing savings and allocating them to the most efficient uses, and the existence of significant gaps in the financial system as a result of the rudimentary nature of the Commercial Bank dominated system which affect the effective and efficient mobilization and allocation of resources. Consequently, in the words of our Governor, "the goals we have set ourselves is to expand the process of financial intermediation across the entire sub-region".

THE GLOBAL TRENDS AFFECTING THE OECS

The importance of the Central Bank's initiatives in this area and the challenges of implementation become even more evident in light of the trends and general environment affecting the OECS sub-region currently and during the Bank's recent experience with Money and Capital Market development. These trends to a large extent have helped to focus and identify the main objectives of the ECCB Money and Capital Market Development Program. First, there was of course, the recognition that the sustainability of the fortuitous situation that existed during most of the 1980's in regard to the OECS economies was doubtful, namely: the concurrent boom in agriculture (bananas, sugar, and cocoa) as a result of preferential trading arrangements, prices, and exchange rates; along with the Boom in tourism as a result of the maturity of other markets in the Eastern Caribbean (U.S.V.I., St. Martin, Barbados, etc.); and the substantial levels of concessionaire aid inflows and private foreign direct investment, in the face of declining and stagnant inflows in the rest of Caricom; which all existing together lead to significant economic growth for the OECS during the period. Secondly, there is the global movement or trend towards trade liberalization and regionalization as reflected in the completion of the last round of GATT negotiations which culminated in the establishment of the WTO, and the recent establishment of regional trading blocs such as the Single European Market, the NAFTA, ASEAN for countries in Asia and MERCOSUR and the Andean Pact in Latin America; which sees the general reduction of tariffs and the regional integration of economies, and presents threats to the preferential arrangements and the international competitiveness of the OECS economies. Thirdly, there is the general movement towards privatization and the use of market forces or market determined variables as the key economic actors and a significantly reduced role for Government in economic activity. This has led to the increased globalization, liberalization (or deregulation), and emergence of financial markets which have become the main avenues for financial flows globally. Fourthly, there was the global recession in the world's major economies during the late 1980's and early 1990's and the consequent tight fiscal position of most Governments, which has resulted in dramatic reductions in level of concessional aid inflows to the OECS. Finally, the development of

Money and Capital Markets in the ECCB area is being undertaken in the context of an international environment consumed in a push for hemispheric integration and liberalization of relatively unsophisticated markets with highly developed traditional markets. Therefore, while most other developing countries can focus on the single overall objective of development of capital markets within the context of national borders, the ECCB has the added dimension of integrating markets across national borders simultaneously with the development of these markets, first within the OECS, then within CARICOM, and thereafter within the hemisphere, moreover this is expected to be accomplished at an accelerated pace, with the recent commitments to the year 2005.

In addition to these global trends which presents a variety of threats and challenges to the OECS in terms of the development of Money and Capital Market Developments, the ECCB's efforts are being undertaken in a regional environment characterized largely by structural adjustment programs, heavy debt burdens, fiscal deficits, currency devaluations, the Common External Tariff, and natural disasters in Caricom. Finally, just when we thought that this environment presented a significant enough amount of trepidation, the recent Mexican crisis provided the last backdrop to this drama. Therefore, while certainly not a panacea for all the problems facing the OECS, some of the objectives of the Money and Capital Market Development Program would be need to meet or at least mitigate some of the challenges presented by the international and regional trends affecting the OECS.

THE OBJECTIVES OF MONEY AND CAPITAL MARKET DEVELOPMENT

In spite of the use of a single currency by the ECCB member countries and the removal of restrictions on the movement of Eastern Caribbean Dollars across the countries, the financial markets of the sub-region remain largely fragmented. As a consequence, the sub-region has not maximized the benefits of its arrangements. The establishment or creation of a single market or single financial space is the logical complement to the single currency area which already exists. Therefore, the free movement of capital is a significant pillar in the development of the OECS Single Market which is viewed as an important element of the

sub-region's overall economic development strategy. The development of Money and Capital Markets would serve to diversify investments by regionalizing the financial sector and insulating or protecting the sub-regions overall economy against territory and industry specific shocks or disasters. By regionalizing the financial markets the OECS area can benefit from economies of scale and volume of business or economic activity in the currency area. Moreover, the investor (saver) can obtain a wider range of investment opportunities and hold a more diversified portfolio. Therefore, a major goal of the ECCB Money and Capital Market Development Program is the establishment of a single financial space to promote the free movement of capital which would facilitate the efficient and effective mobilization and allocation of foreign and domestic capital in the OECS for real sector production and to ensure that the highest returns on investment are achieved.

In addition, the relatively undeveloped or rudimentary nature of the financial system and its heavily commercial bank dominated financial sector has left significant gaps in the financial system required for the efficient and effective mobilization and allocation of resources to the productive sectors. These gaps include the absence of organized securities markets, such as Money Markets, Capital Markets (debt and equity), as well as Government Securities Markets. In addition, institutions such as Unit Trust (Mutual Fund) Companies, Merchant (Investment) Banks, Venture Capital Companies, Rating Agencies, Depositories, and the full range of institutions that provide brokerage, market maker, and intermediation facilities, as well as other financial services critical for the efficient mobilization and allocation of resources are absent. Another goal of the ECCB Money and Capital Market Development Program is to encourage the institutional strengthening and development of existing institutions and the development of new institutions both locally and regionally to fill some of these gaps. Therefore, as mentioned above the nature of the ECCB arrangements presents the unique challenge of integrating and developing markets simultaneously in a multi-country setting, along with the practical and intellectual challenges that such an exercise poses.

The concept of Financial System development as a mechanism to foster and/or facilitate economic growth and development has gained urgency for emerging economies worldwide and indeed for the OECS member territories in recent times, particularly in view of some of the international trends described earlier, and despite of the long running debate over whether financial sector development leads or follows real sector development. The current view holds that while the generation of economic surplus constitutes the basis for the emergence of finance in an economy, further economic growth and development usually depends on how well these resources are mobilized and allocated. Therefore, the development of the financial system by promoting and encouraging the development of, expanding the scope of, as well as establishing and strengthening both new and existing instruments, institutions and markets can be seen as a fundamental requirement for the further economic advancement of the sub-region. These efforts are expected to increase the effectiveness and efficiency of the process of mobilization of savings and allocation of investment capital, by channelling surplus funds (both foreign and domestic) to productive areas of the economy and thereby generating economic growth.

Also, as a result of the reduced levels of official aid inflows to the OECS and the increase in the use of financial markets for the movement of capital internationally, a heavier reliance has been placed on the efficient investment of domestic savings and the attraction of private foreign investment capital via organized markets for continued economic growth. The conventional wisdom based on the experience of the newly industrialized countries of the Far East, holds that a significant amount of domestic savings must be generated in order to finance investment and facilitate economic growth and development. However, at current levels in the OECS domestic savings are not at the suggested levels needed to finance the level of investment required. In addition, the financial system is not sophisticated enough to attract the level of foreign investment capital required to off-set the declining inflows. Therefore, the development of the financial system is needed in order to increase the level of domestic savings and to provide organized avenues for foreign investment, as well as to channel these resources into productive areas of the economy. In addition, the OECS member territories being small open economies with limited resources and a heavy

dependence on extra-regional imports, makes it necessary to efficiently use or channel the limited financial resources into productive areas of the economy that are primary earners of the foreign exchange needed to support continued economic growth and development.

In addition, the whole move towards the private sector led development in developing countries, places a greater responsibility on financial markets to provide the private sector with the means of accessing finance or investment capital for production. Therefore, another goal of the development of money and capital markets particularly in the OECS context is the reduction of the over dependence on loan financing for production and business activity. Finally, the monetary policy tools available to the Central Bank are substantially limited in the context of undeveloped and fragmented markets, therefore, the development of the appropriate mechanisms or tools for the conduct of effective monetary policy is also considered a goal of the Money and Capital Market Development Program.

Therefore, the development of Money and Capital Markets are not seen as ends in and of themselves, but rather the means to an end, that being the sustainable economic growth and development of the OECS member territories. The positive impact of Financial System development on real sector development is a critical underlying objective of the ECCB Money and Capital Market Development Program. The specific objectives of developing Money and Capital Markets can be summarized as follows:

1. to increase and/or encourage the expansion of and maintain the level of domestic savings;
2. to increase and/or attract savings from abroad, to improve the ability to raise foreign savings and the terms under which these are raised;
3. to improve the efficiency and effectiveness of the mobilization and allocation of savings and investments to the productive areas in the public and private sector;

4. to promote the democratization of the ownership of capital by broadening the ownership base of real and financial assets and improving the level of income distribution;
5. to make investment capital more widely available and to ensure the availability of long-term financial resources;
6. to ensure a proper framework for term transformation of financial assets by financial institutions, or the translation of short-term flows to long-term flows or visa versa via securitization and/or intermediation;
7. to widen the range of financial services available through financial institutions, and to improve the operational efficiency and effectiveness of financial institutions;
8. to eliminate imperfections in the markets by promoting competition among business leaders, earners and financial intermediaries;
9. to facilitate the diversification of investments whereby portfolios could be protected against territory or industry specific shocks or disasters;
10. to facilitate the broad based efficient and effective divestment of public sector enterprises and assets.

The above objectives to a large extent are generic to most efforts at the development of money and capital market, while the following speak more specifically to the challenges facing the ECCB Area:

1. the efficient and effective mobilization and allocation of financial resources from surplus units (savers) to deficit units (investors) for **production**;

2. the diversification of investments by regionalizing the financial sector and protecting the sub-region's overall economy against territory and industry specific shocks or disasters;
3. the provision of organized avenues for foreign investment by virtue of linkages to the international markets, as well as, access to international savings;
4. the reduction of the over dependence on loan financing for **production** and business activity; and
5. the provision of mechanisms and tools for the conduct of effective Monetary Policy.

All of these reasons are inextricably tied to the **overall objective of achieving sustainable economic growth and development for the sub-region**, and therefore represent the ultimate criteria for measuring the success or failure of the ECCB Money and Capital Market Development Program for the OECS area.

MONEY AND CAPITAL MARKET DEVELOPMENT STRATEGY

The ECCB Money and Capital Market Development Program has been informed by the ECCB Monetary Council's policies in regard to the strategic approach to the development of Money and Capital Markets in the OECS sub-region. This policy position has been developed in spite of a variety of reports and recommendations for the ECCB area to simply link-up with more developed nearby regional markets on a bilateral basis, and amid calls for rapid opening up and liberalization of the Financial System. The strategic approach to the development of Money and Capital Markets in the ECCB area can be characterized as realistic and pragmatic, and involves a process of implementing initiatives to open up the Financial System and/or develop the Money and Capital Markets in incremental stages, while evaluating the effects of these actions in terms of set objectives. This iterative approach allows:

1. time for the development and maturity of the institutional and legal framework of the markets;
2. time for policy-makers to develop an appropriate regulatory system and observe what changes need to be made;
3. for the observation of how the introduction of instruments, institutions and markets is affecting the economies in a more controlled environment;
4. the opportunity for the populace to adjust to and become familiar with the use of new instruments, institutions and markets, and to nurture a more sophisticated market culture.
5. the populace the first opportunity to access the new instruments, institutions and markets, which has implications for income distribution.
6. the markets time to mature and develop under domestic ownership thereby increasing the credibility of maintaining an open capital account if and when international access to the market is allowed;
7. for the sub-region to link into the wider CARICOM regional capital market developments in a more effective manner, rather than on an ad-hoc bilateral basis.

In addition, the strategic approach recognizes that the over-riding constraint of the size of the sub-regional markets calls into question issues relating to the volume of supply and/or demand and the scale of operations or activity in regard to the instruments, institutions, and markets that are required to make these developments viable. Consequently:

8. existing financial intermediaries will have to be strengthened and the role and scope of their activities expanded; and

9. there will also be a need to develop and establish secondary market institutions on a sub-regional basis in key areas.

HISTORY OF MONEY AND CAPITAL MARKET DEVELOPMENT IN OECS

Before relating the OECS experience to date with Money and Capital Market Development, a brief history is required to put the experience and the initiatives outlined in the Money and Capital Market Development Program in the proper context or perspective. The development of Money and Capital Markets in the OECS had its germination in the development of an inter-bank Money Market facility in early 1986 to make better use of commercial banks' surplus cash holdings, with the active participation of the Central Bank common to each of the member territories. Then in 1988, a Treasury Bill discount (buying) and rediscount (selling) facility at the ECCB was established in an effort to encourage commercial banks to hold Government Treasury Bills, with the ECCB standing ready to buy and sell Treasury Bills from its own portfolio which it would have purchased on the primary market.

Thereafter in 1989, a study entitled "OECS Capital Markets and Financial Institutions Project" was prepared for the ECCB by Robert R. Nathan Associates, Inc. and Price Waterhouse (consultants) under the auspices of the USAID. The basic findings, conclusions, recommendations, and implementation steps of the project report were presented under the following topics; loan and guarantee facilities, technical assistance and training to the productive private sectors, facilities to reorganize, refinance, and takeover enterprises, venture capital, leasing, foreign exchange risk management techniques, and clearing efficiency of the OECS banking system. However, the report also set out as the underlying premises for the specific recommendations the following:

1. An effective financial sector development strategy should address constraints imposed by restricted market size and limited competition as an alternative to regulation by fiat of the existing commercial banking sector.

2. There should be a maximum utilization of existing institutions, particularly in the private sector, and minimal establishment or extension of public sector institutions.
3. There should be, to the extent possible, a reduction in the direct involvement of public sector institutions in the financial markets.
4. Any newly-created public sector institutions should play a catalytic role in the development of a viable financial sector in the OECS region.
5. The Central Bank should function primarily as a policy maker, a regulator, and a lender of last resort. It should achieve policy objectives, including being a catalyst for economic development, by increasingly indirect means.
6. The development of a unified financial sector in the OECS region will be an essentially long-term exercise. This will require that the region's leadership, both in the public and private sectors, learn through trial and error what will and will not work. A concerted process of consensus building will be required to implement many of the steps necessary to promote the unification of the OECS financial sector.

In terms of its specific implications for capital market development the report also concluded that an independent capital market or stock exchange was not feasible in the OECS region, and offered that perhaps the most effective way to open regional capital markets to the world would be for the OECS to link with the Barbados Stock Exchange.

Also in 1989, at the Tenth meeting of the CARICOM Heads of Government Conference in Grenada in the Grand Anse Declaration, it was resolved that "a scheme for the movement of capital should be introduced by 1993 starting with the cross-listing and trading of securities of existing Stock Exchanges". This was the result of the earlier meeting of the Standing Committee of Ministers responsible for Finance which had agreed to the establishment of a Regional Capital Market, which would include; a stock market and

a market in other financial instruments, such as bonds, treasury bills and debentures. Based on both of these developments in 1989, as well as the refocusing and reassessment impetus that resulted from the appointment of a new Governor, the ECCB undertook a series of meetings in 1990 both internally and with various financial institutions in the OECS and held discussions on the prospects for the development of Money and Capital Markets in the sub-region. In addition, in 1991 a paper entitled "Money and Capital Markets in the OECS : The Way Forward" was presented to the Board and Monetary Council of the Bank. This paper basically outlined the early strategic approach of the Bank and the sub-region to the development of Money and Capital Markets. The paper reflected the Bank's view that "the OECS countries should take the necessary steps to remove the impediments to the creation of a single market in the area as a first step towards creating the environment for a money and capital market". The paper also identified the development of the Caricom Stock Exchange as a medium term objective, with the development and strengthening of national exchanges as short-term goals. It also identified the role of the ECCB as catalyst for the further development of the OECS Money and Capital Markets, where during the early stages of development the Bank would take on the temporary role of market maker for instruments and participate more directly in the operations of the markets. However, once these functions were relatively established the Bank would increasingly limit its involvement by hiving off or privatizing these functions. The paper also highlighted the need for a suitable legal and regulatory framework for markets and the need for wide ranging education, training, and consultations in the area, as well as the need to start with the development of the money market and government securities markets in the initial stages of the program. Thus, at the 13th meeting of the ECCB Monetary Council on 2nd February 1991 the Council agreed that the Central Bank would take the necessary steps towards the development of an OECS Capital Market. The paper was expanded and then used as a basis for wider consultative meetings held in each member territory in 1991.

Then at the 14th and 15th meetings of Council held in 1991 and 1992, four capital market regional institutional development initiatives were identified and accepted, namely; The establishment of a Secondary Mortgage Market Facility in the form of a Home Mortgage

Bank, a Venture Capital/Enterprise Fund, a Unit Trust, and a Share Market for equities as a precursor to a formal stock exchange. In 1992 and 1993 the ECCB undertook to develop an Action Plan or Strategic Program for the development of Money and Capital Markets, and the Proposal and Agreement for the establishment of the Eastern Caribbean Home Mortgage Bank as a lead institutional development initiative in the Action Plan. However, it wasn't until January 1994 that the ECCB established a specific Unit within the Governor's Office along with the requisite internal management committees to develop the Money and Capital Markets in the OECS by promoting, researching, developing, implementing and encouraging various financial markets, institutions, and instruments necessary to foster the balanced economic growth and development of the participating member countries individually and the sub-region as a whole, consistent with the objectives of the Central Bank. It is at this stage, that the Bank formally applied significant technical and financial resources to the Money and Capital Market development program, and where a clear and definitive declaration was made by the Monetary Council after its 22nd meeting in February 1994 that the implementation of this program would be one of the region's highest priorities. In the individual Ministers' declarations on this issue in their respective countries they also announced the formal appointment of broad based National Steering Committees chaired by the Directors of Finance or Financial Secretaries to assist the ECCB in all matters relating to the development of Money and Capital Markets. Therefore, it is only over the last two years that the Action Plan or Strategic Program for the development of these markets has manifested itself in any significant way in terms of the Bank's thrust or focus as reflected in its work program.

ECCB MONEY AND CAPITAL MARKET DEVELOPMENT PROGRAM:

Recognizing that Money and Capital Markets are not built overnight, and considering the level of financial sophistication that now characterizes the system, as well as some of the significant challenges highlighted earlier the following initiatives that comprise the ECCB Money and Capital Market Development Program, are expected to be undertaken within a three to five year planning horizon. The specific initiatives are as follows:

1. The development and implementation of a comprehensive education, awareness, and training program to enhance the financial literacy of the general public, to promote participation in money and capital market activity, and to prepare the key financial market participants for this activity;
2. The research, analysis, conceptualization, and articulation of issues, initiatives, and strategies for the development of the Money and Capital Markets through a process of wide range detailed consultation with potential players or participants throughout the sub-region;
3. The development and promotion of the appropriate legal and regulatory framework for the proper and orderly functioning of the Money and Capital Markets, by undertaking reform of existing legislation, introducing new legislation, and establishing a system self-regulation, where appropriate to facilitate the process.
4. The development of the Money Market and the Government Securities Market via the further development and establishment of a regional primary and secondary market for these securities.
5. The development of the Capital Market via the establishment and operationalization of key Capital Market institutions, namely:
 - (i) The Eastern Caribbean Home Mortgage Bank (ECHMB) to provide a secondary market for residential mortgages and to facilitate the development of the market for bonds and mortgage backed securities;
 - (ii) The Eastern Caribbean Over-The-Counter Call Exchange as a precursor to the development of an Eastern Caribbean Stock Exchange (ECSE), to provide an organized regional secondary market for shares (equities) and to promote secondary trading of these securities;

- (iii) The Eastern Caribbean Enterprise Fund (ECEP), as an omnibus venture capital/investment fund to support the productive sector, to promote private sector development and enhance the supply of tradeable instruments in the markets; and
 - (iv) The Eastern Caribbean Unit Trust Company (ECUTC), as a regional mutual fund investment company to facilitate the participation of the small investor in these markets.
6. The strengthening, restructuring, and reorientation of existing financial institutions, as well as the rationalization of industries to facilitate institutional development and to promote and foster the development of Money and Capital Markets in the sub-region.

STATUS OF THE MONEY AND CAPITAL MARKET DEVELOPMENT PROGRAM

In regard to the first initiative described above, the ECCB has established and published a quarterly Financial Newsletter (FNL), with Money and Capital Market articles and indicators as a means of disseminating information and promoting its initiatives. The ECCB has also held various public forums and training seminars throughout the OECS on specific Money and Capital Market development initiatives. The Central Bank has also drafted a comprehensive Education Program Strategy for implementation. The ECCB has also disseminated information in this area via its regular meetings with financial institutions, Government officials, and National Steering Committees (NSC's) on Money and Capital Market Development. The Central Bank has also undertaken its second initiative in the Money and Capital Market Development Program in regard to consultation using the same medium of institutionalized regular meetings with financial institutions, Government officials, and broad based NSC's

The ECCB has also directly and indirectly via the NSC's, promoted and actively lobbied for legal reform in the form of modern uniform Companies legislation, amendments to the Alien Landholding legislation, and various financial institutions legislation (banking, insurance, credit union, and development banking). The ECCB has also undertaken initial research for the development of comprehensive Securities legislation. The Central Bank has also been encouraging the establishment, strengthening, and further development of National and OECS self-regulatory organizations such as the Chambers of Commerce, the Legal and Accounting professions, Banking and Insurance Associations, as well as Credit Union Leagues.

Except for the efforts to reestablish and further develop the Inter-Bank Money Market and the establishment and expansion of the Treasury Bill discount and rediscount window, there has been virtually no recent developments in the Money Market Development initiative. However, in terms of the Government Securities Market the ECCB has increased its role in the management of the Government Bond issues, by managing the sinking funds in support of the issues on behalf of the member Governments, providing advice on terms and conditions of Bond issues based on extensive analysis of the respective Governments fiscal and macroeconomic situation, facilitation of the payment of interest coupons via the local commercial banks, announcement of Bond issues in the FNL, and the dissemination of the prospectus and application forms via the ECCB Resident Representative Offices. In addition, the Monetary Council has made two key policy decisions to facilitate the further development of the Government Securities Markets, namely; the removal of all legal and administrative restrictions to the marketing of Government Securities across territories and the active marketing of Government Securities across territories, and the granting of tax-exempt treatment of the income on all Government Securities issued in the OECS area. Also, to support and facilitate the decisions of the Monetary Council, the Central Bank has recently undertaken the acceptance of applications, the negotiation of checks, and the establishment of procedures for the payment of coupon interest via the ECCB Resident Representative Offices on behalf of the Governments. Finally, as a result of a survey of the Government Securities Markets conducted by the ECCB, assistance has been requested from the

International Monetary Fund IMF in the form of a mission to review the Government Securities Markets in the ECCB area, to provide recommendations, and to assist with their implementation, for the development of integrated primary and secondary markets in Government Securities. The mission will be conducted in December 1995, and will also involve a review of the regional payments system, monetary policy formulation, and the monetary instruments.

In terms of the Capital Market institutions, the Eastern Caribbean Home Mortgage Bank (ECHMB) is the most advanced in development. The ECHMB Agreement was signed by all eight ECCB member territories on 27 May 1994, the required minimum of five instruments of ratification were deposited with the Director General of the OECS on 19 August 1994 to formally establish the institution, and has been passed in all eight ECCB member territories within a year of this date. The main objectives of the Eastern Caribbean Home Mortgage Bank are:

1. to develop and maintain an organized secondary mortgage market in order to increase the availability of mortgage credit and the liquidity and flexibility of institutions originating mortgages in the ECCB member territories;
2. to contribute to the efficient mobilization and allocation of long-term savings for housing investments;
3. to support the development of a harmonized system of housing finance and provide leadership, as an apex institution, in the housing and home finance industry through the development of new programs and techniques for housing finance; and
4. to promote the growth and development of the Money and Capital Market.
5. to provide a vehicle which will enhance the further monetary integration of the ECCB member territories.

However, it is also expected to promote services and benefits, such as, reducing mortgage lending rates, improving originating/underwriting practices, improving efficiency in processing mortgages, and the reduction of fees associated with mortgage financing. The institution has been capitalized by the equity participation of over 70 institutional investors (the majority private sector) including; the ECCB, National Insurance/Social Security Schemes, Commercial Banks, Insurance Companies, Credit Unions, and other non-Bank Financial Institutions. The Board of Directors and its Executive Management Committee have been meeting regularly to set up the institution. The appropriate policies, procedures, and operating guidelines, as well as staff required for the proper functioning of the institution is being put in place. This process should be completed by the end of the calendar year. The three senior posts in the institution have been advertised regionally and internationally, namely; the General Manager (CEO), the Manager Corporate Finance (CF0), and the Administrative Officer Mortgages. The ECCB has been providing technical, administrative, and operational support to the Board and Executive Committee until the General Manager and staff are recruited. The ECHMB will participate in the market by issuing Bonds and/or purchasing mortgages in the first quarter of 1996. Finally, Subscription Agreements are being negotiated with the Class E and F shareholders designates, the **International Finance Corporation IFC** and the Trinidad and Tobago Home Mortgage Bank to take equity stakes in the ECHMB.

The next institutional development initiative is the Eastern Caribbean Stock Exchange, which is being developed in two stages, first a less formal Over-The-Counter Call Exchange will be develop to nurture trading in shares. Then in the second stage the formal Stock Exchange along with the comprehensive Securities legislation and regulatory framework will be established. The specific objectives of developing a secondary market for equities in the OECS area are as follows:

1. to enable participants (investors) to acquire or dispose of their assets in stocks, securities, or contracts via a centralized market mechanism in a timely and cost effective manner;

2. to create an efficient mechanism for determining the prices of securities traded;
3. to regulate trading in securities to ensure that public investors, financial intermediaries and companies are treated fairly (protected) and obtain maximum benefits via timely disclosures of accurate information;
4. to organize trading in securities to ensure that it takes place in an orderly manner governed by recognized rules, and based on competitive market forces or conditions;
5. to provide a mechanism for enterprises to raise long-term investment capital for production and other commercial enterprises;
6. to reduce the over-dependence on loan or debt capital by business enterprises for production and other commercial activity or improve the mix of capital used, both equity and debt;

The proposal for the establishment of the Eastern Caribbean Over-The-Counter Call Exchange has been completed and a demo of the automated auction software program has been prepared by the ECCB and the Call Exchange is targeted to commence operations by the middle of 1996. The Call Exchange will be established by an internationally binding agreement between the eight member Governments of the ECCB and designated public companies that meet minimum listing requirements. The OTC Call Exchange proposes to use this agreement as a temporary mechanism to overcome or by-pass a number of obstacles to the development of the Stock Exchange by:

1. Requiring specific amendments to the Articles of Incorporation of public companies that wish to list on the exchange as a condition precedent, to facilitate trading in equities and a minimum level playing field in areas such as, shareholders rights, insider trading, continuing disclosure, transfers and registration of shares, duties of Directors, reports and accounts, etc.

2. Providing for the regulation and monitoring of securities trading activity via the Call Exchange.
3. Providing specific, simultaneous regional exemptions to the shares of designated companies from the Alien Landholding Laws.
4. Providing for a centralized market for automated trading in equities via the Development Finance Institutions (DFI's) in the territories and the ECCB using an internally developed computer software program.
5. Providing for centralized clearance and settlement via the ECCB and Commercial Banks using the current clearings facilities.
6. Providing for direct access and intermediated access to the exchange or market to trade shares by individuals via a window at the DFI's.

The final two Capital Market initiatives, the Eastern Caribbean Enterprise Fund and the Eastern Caribbean Unit Trust Company, apart from some of the initial concept and research work, no developments have taken place. Both institutions will receive more focus in the 1996/97 work program. It should also be noted that technical assistance is being sought from the **International Bank for Reconstruction and Development IBRD (World Bank)** in the form of a Financial Sector Review in the first instance, as a bench-marking exercise, as a means of evaluating the Money and Capital Market Development Program, and to identify any other gaps in the financial system. Based on the review both technical and financial assistance will be required to undertake the institutional and market development initiatives to fill these gaps.

Finally, the ECCB has recently submitted a project proposal to the **Multilateral Investment Fund MIF** via the **Inter-American Development Bank IDB** and the Caribbean Development Bank CDB for technical and financial assistance in several areas including:

establishing the Eastern Caribbean OTC Call Exchange; implementing the comprehensive education, awareness, and training program; establishing a Central Securities Depository as part of an IDB project for the wider Caribbean Region; drafting comprehensive securities and development banking legislation; as well as training and institutional support for key market players.

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