

Data Sheet

USAID Mission:	Europe Regional
Program Title:	Strengthening the Financial Sector
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	180-0140
Proposed FY 2004 Obligation:	\$1,389,000 AEEB
Prior Year Unobligated:	\$416,000 AEEB
Proposed FY 2005 Obligation:	\$1,068,000 AEEB
Year of Initial Obligation:	FY 1992
Year of Final Obligation:	FY 2006

Summary: The goal of activities under this objective is to accelerate the development of sound, vibrant, private and competitive financial sectors in AEEB countries which promote growing financial intermediation in support of private sector development and sustainable economic growth. The focus of the regional activities is on the introduction of new products to broaden and deepen the financial sector, cross-border trading and risk management, institutional development and capacity building of financial and regulatory institutions, and anti-money laundering activities. A key element in all the programs is harmonization and meeting international standards to ensure faster integration of financial markets into the international financial system.

Inputs, Outputs, Activities:

FY 2004 Program:

Competitive financial markets (\$650,000 AEEB, \$250,000 AEEB carryover) and SME (\$60,000 AEEB carryover). USAID will provide technical support in select countries to structure and place sub-sovereign and corporate debt instruments. Building upon pilot projects in several countries, a comprehensive package of resource materials to support debt issuance in other countries in the region will be developed. Following a USAID-sponsored bond market conference in Budapest in May 2003, a number of participating financial intermediaries are preparing case studies of their innovative bond offerings, most of which were financings for SMEs. The studies will be widely shared in a subsequent workshop, via a dedicated website, and USAID's SME development network.

USAID will continue to assist in the development of secondary mortgage markets in Southeast Europe (SEE). Following the USAID-sponsored mortgage market conference in Sofia in February 2003, a number of the participants decided to establish a mortgage finance network for the region. The Southeast Europe Mortgage Finance Network (SEEMFN) is a public private partnership of local and foreign mortgage finance practitioners, donors and international financial institutions whose purpose is to promote stronger domestic mortgage markets and greater integration of the region's financial markets. USAID is providing financial support to the SEEMFN in its goals to promote the harmonization of mortgage laws, policies and procedures in the region based on international standards and best practices. The first activity is in detailed legal gap analysis in 5 countries -- Croatia, Bulgaria, Serbia, Macedonia and Romania. This will provide the basis for the development of strategies to promote standardization and harmonization of mortgage legal frameworks in the region, an important first step to promoting secondary mortgage market development. Other topics addressed by the SEEMFN, which meets every six months, include mortgage default insurance and a standardized underwriting manual.

In addition, USAID is funding a study to determine the feasibility of establishing a private Southeast Europe (SEE) Mortgage Fund which would acquire mortgage bonds or pools of mortgages from banks or other mortgage originating institutions in SEE countries. The securities would be issued into the Euromarket. This would provide local SEE financial institutions access to longer-term lower-cost funding from the international capital markets which is currently not available. Through its buying power, the Mortgage Fund would directly stimulate a cross-border secondary mortgage market along lines consistent

with international underwriting criteria, management information systems, and documentation. The principal contractors are Deloitte Touche and the Urban Institute

Partners for Financial Stability Expanded (PFS-E) (\$300,000 AEEB). This is a new regional activity focused on practical ways to harmonize financial market and related laws, policies, and practices in the region based on international standards. The primary PFS-E activities will be mortgage finance, municipal finance, bank supervision/restructuring, financial crimes and anti-money laundering, debt finance for SMEs, risk management, and pension reform. There will also be a focus on the role of the judiciary in the adjudication and enforcement of laws and regulations in these areas. Through regional workshops and assessments, the establishment of regional working groups and networks, innovative pilot programs, knowledge management and the promotion of regional private sector funds, the PFS-E is designed to catalyze the private and public financial sector actors and institutions in the AEEB region to promote and advocate for change. Principal contractor/s is to be determined.

Policy and technical support to missions (\$439,000 AEEB, \$106,000 AEEB carryover). Supports technical expertise for financial sector reform in the region.

FY 2005 Program:

PFS-E (\$500,000 AEEB). All activities that had contributed to competitive financial markets will be subsumed under the new PFS-E program as described above. The focus of these activities will be on innovative financing structures, and regional integration and harmonization based on best practices and international standards. The SEEMFN will continue to be supported. Additional support for a SEE Mortgage Fund is contemplated. Two conferences, one on Current Issues in Risk Management and Bank Supervision, and one on SME debt finance will also be held. Principal contractors are Deloitte Touche, and Urban Institute and potentially others for PFS-E.

Policy and technical support to missions (\$568,000 AEEB). These funds will support technical expertise for financial sector reform in the region.

Performance and Results: The Southeast Europe Mortgage Finance Network had been established and two meetings have been held focusing on comparative legal analysis and a workplan for harmonizing mortgage underwriting standards manual has been discussed. A website for this network has been established. The success of PFS in promoting stronger financial sectors in the Northern Tier countries has formed the basis for development of PFS-Expanded which will promote better functioning financial markets in other EE regions.