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REGIONAL COOPERATION IN THE MOBILIZATION, MANAGEMENT AND ALLOCATION OF FINANCIAL RESOURCES IN THE ESCWA REGION

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Preface

This study has been prepared by the Economic Development Issues and Policies Division of the Economic and Social Commission for Western Asia (ESCWA)[1] in implementation of activity No. 05R533bD804, entitled “Regional Cooperation in the Mobilization, Management and Allocation of Financial Resources in the ESCWA Region”, of the Commission's programme of work for the period 1996-1997. The study benefited from the comments provided by a number of staff members in the Division and from various publications of the International Monetary Fund, United Nations Conference on Trade and Development and concerned organizations of ESCWA member countries. We thank them all.

1 The ESCWA region comprises 13 countries, namely Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Saudi Arabia, the Syrian Arab Republic, the United Arab Emirates and Yemen.

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Introduction

For many years, the establishment of financial markets (i.e., stock exchanges and/or securities markets) in most ESCWA member countries was limited by several factors, prominent among which were the low levels of national income and savings and the prevalence of the public sector in the economy.

The financial systems in ESCWA member countries relied heavily on domestic and external borrowing. This practice neither encouraged the establishment of financial markets nor helped to introduce financial instruments to mobilize, manage and allocate financial resources.

However, in the mid 1980s, a combination of factors created a more favourable environment for establishing financial markets in a number of ESCWA member countries. The member countries have been relentlessly trying to mobilize financial resources for development. This, together with their need to transcend the debt crisis caused by several years of excessive external borrowing, persuaded several member countries to have recourse to the domestic banking sector and to seek the development of alternative sources of finance. The high economic growth rates in the mid-1970s and early 1980s led to the emergence of a supply of net domestic savings in search of worthwhile investment opportunities in the ESCWA region.

There has been a marked increase in intraregional investments since the mid-1970s. This is explained, from the investors' point of view, by the rise in profitable investment opportunities in the region; from the host country's point of view it is explained by economic structural adjustment and reform programmes. As a result, the number of financial instruments (mainly shares) issued by the host countries for the purpose of raising funds for development projects has increased. The benefits from this development, however, have not been equally distributed. The increase in intraregional investments has been mainly in those member countries which implemented policies conducive to strengthening the operational framework for the domestic financial market. Egypt, which has been successfully implementing an economic structural adjustment and reform programme since the early 1990s, has been a major beneficiary of this development.

The objectives of establishing and developing a domestic financial market emerged in most ESCWA member countries in the early 1980s, in response to the scarcity of external financial resources following the eruption of the world debt crisis in 1982. Another reason was the desire of ESCWA member countries to rely more on domestic financial resources for funding economic development, particularly in the form of non-debt creating financial flows. The role of the financial markets in the economy of ESCWA member countries has been viewed positively for several reasons, shown below:

1. The financial markets mobilize financial resources from within and outside the member countries;

2. The financial markets contribute to a more efficient allocation of financial resources, thus saving on the cost of finance and pooling of risk;

3. The financial markets standardize financial practices and norms and contribute significantly to the transparency of information;

4. The financial markets open up possibilities of international financial linkages.[2]

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[2] United Nations Conference on Trade and Development, *The Role of Regional Capital Markets in Enhancing Resource Mobilization and in Promoting their Efficient Use*, (UNCTAD/ECDC/246), 31 August 1994.

Within the current agenda of cooperation among ESCWA member countries in the process of mobilization, management and allocation of financial resources, it is important to underline the significance of the role of the financial markets in this process. With or without a financial market, the cooperation would provide all ESCWA member countries with a threshold of market development and viability. It would also enhance shareholding practices (e.g. buying and selling of shares) and provide an improved channel for financing regional joint-venture projects.

Arguments for emphasizing the role of financial markets in the mobilization, management and allocation of financial resources, within a regional framework of cooperation, could stem from the point of view of market participants. For both intra and extraregional investors the financial markets would provide opportunities for the diversification of portfolio risks, especially in the form of enlarged investment opportunities. In addition to a reliable pricing of available equities, standardization and more widely available information on listed companies on the stock markets in ESCWA member countries would enhance cooperation and bring about access to highly profitable equities, previously considered to be risky. For intraregional companies, the cooperation would provide access to an extended pool of financial resources, and, through the market participants, provide more optimal localized services, depending on the preference of these companies for carrying out equity financing in local and/or intraregional resources.

This study deals with the issue of regional cooperation in the mobilization, management and allocation of financial resources in the ESCWA region. It shows that there are enormous opportunities for this cooperation to take place, and shows also that the financial markets would be the main vehicles to achieve it. The role of the financial markets in the process is dealt with in chapter I, where assessment of the general situation in these markets, identification of the markets' participants and actors, and examination of the markets' regulatory aspects are made.

Chapter II examines the issue of cooperation among the ESCWA region's financial markets in the mobilization, management and allocation of financial resources. Chapter III is an attempt to assess the role of the national and regional development finance institutions in this context. Chapter IV presents some proposals to foster regional cooperation in the mobilization, management and allocation of financial resources in the ESCWA region. Finally, chapter V concludes the study, identifies a number of recommendations, and makes suggestions for a plan of action.

I. FINANCIAL MARKETS AND MOBILIZATION, MANAGEMENT AND ALLOCATION OF FINANCIAL RESOURCES IN THE ESCWA REGION

A. GENERAL SITUATION

As in other regions of the developing countries, the financial markets in the ESCWA region constitute a dynamic component of the domestic financial system in the member countries. The financial markets are clearly associated with commercial banks and other financial intermediaries of the formal financial sector.

Until the early 1990s, financial markets in the ESCWA region were not considered to be significant vehicles for mobilizing, managing and allocating financial resources. They were considered more as tools to be used by the authorities in the process of economic and financial structural transformation. The state of "underdevelopment" of these markets affected the management of monetary policy, as it hampered open market operations and indirect control of interest rates.

The job of the monetary authorities in most ESCWA member countries was confined to using direct controls, changes in reserve requirements and reinforcing facilities to achieve specific policy objectives. Furthermore, the financial systems in these countries were characterized by a high degree of segmentation, with each segment in the system being accorded its explicitly assigned domain. Entry of new institutions into particular segments was prohibited or heavily regulated.

The worldwide move towards financial liberalization during the 1980s left its marks on the financial systems in ESCWA member countries. The move towards liberalization of the financial systems in the region was based on the fact that controls and regulations proved to be an increasing disincentive for mobilizing, managing and allocating financial resources. Nor did it encourage cross-exchange listing, which aimed at raising funds, regionally as well as globally. Most ESCWA member countries also found that stringently regulated financial systems would have a negative impact on economic development, create distortions in investment decisions and intermediation, and consequently, in the overall process of mobilization, management and allocation of financial resources.

In general, the financial liberalization, which has been implemented since the early 1990s by most ESCWA member countries, entailed more reliance on market forces and more efficient monetary policies. The reforms implied liberalization of interest rates, reduction of credit controls and more competition in the financial system. The reinforcement of supervision and the deepening of financial markets would be made by more flexible exchange rate arrangements and a relaxation of restrictions on external capital flows.

Within this framework of general financial liberalization, financial markets in the ESCWA region have been undergoing major changes. They have been expanding substantially. The introduction of a number of financial instruments has significantly increased the capabilities of these markets to mobilize, manage and allocate financial resources. This is particularly so whenever governments of ESCWA member countries embarked on privatization programmes through the financial markets or introduced private provident funds or improved financial market regulations, as in the case of Jordan, Egypt, Oman and Kuwait.

In a number of ESCWA member countries the financial liberalization was also meant to have a regional dimension and consequences. The free movement of capital did pave the way for more intensive intra-regional and interregional financial flows. The flows were as important for the process of regional economic cooperation, and consequently integration, as the free movement of goods and services.

The role of the financial markets in this process meant that national, intraregional and, eventually, interregional capital would benefit from a similar treatment. Therefore, the coordination of some aspects of economic policies of ESCWA member countries, particularly in such areas as monetary and exchange rate policies and financial and credit regulations, is a must.

To enable the ESCWA region's financial markets to play a *significant role in the mobilization, management and allocation of financial resources* in the region, monetary and financial policies would need to be harmonized among ESCWA member countries. At the country level, the harmonization would be in line with the adjustment programmes being undertaken by the countries. At the regional level, the harmonization would include the creation of a forum where governments of the member countries agree on the main aspects of the process.

The differences in structure, functions and regulations of the financial markets in the ESCWA region are not surprising. A not so well known feature, however, is whether some special institutions, such as the pension funds, might play a significant role in the mobilization of financial resources. A non-market related-rate of return (i.e., an interest rate higher than the market rate) would help to increase the savings rate and consequently the overall rate of capital accumulation. If surpluses of these funds are well managed and efficiently invested, the funds would also facilitate the promotion of the financial markets and their role in the mobilization, management and allocation of financial resources.

B. MARKET PARTICIPANTS AND ACTORS[3]

During the 1980s, the methods of fostering economic development in the ESCWA region changed dramatically. Until then, a pre-eminent role was reserved in most ESCWA member countries for the state, and its direct intervention. With privatization taking place in many of these countries since the early 1990s, emphasis has been shifting to the role of non-government actors. Reforms have been brought to bear on the regulatory and monopoly practices which impede private actors from fully contributing to development.

This process of enlarging the scope of actors has been particularly pronounced in the financial area. In the case of cooperation among financial markets in the ESCWA region, such a reform (i.e., enlarging the scope of actors) would be in line with the general characteristics of these markets. A smooth functioning of each segment in any of these markets would be possible only if the roles of regulators, supervisors, intermediaries and others reflect an optimum design of the financial system. Therefore, it is important for any analysis to examine and classify the roles and characteristics of market participants and actors.

Market participants and actors could be categorized as domestic and regional (and eventually international) participants and actors (Table 1). The following is a brief description of each of these participants and actors and their functions in the mobilization, management and allocation of financial resources.

1. *Domestic private participants and actors*

Any scheme envisaging regional cooperation in the mobilization, management and allocation of financial resources, and consequently the establishment of a regional financial market, is expected to take into consideration the points of view and interests of market participants and actors (P and A).

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3 This section is based on a publication by the United Nations Conference on Trade and Development, *The Role of Regional Capital Markets in Enhancing Resource Mobilization and in Promoting their Efficient Use*, (UNCTAD/ECDC/246), 31 August 1994. In broad terms, however, market participants and actors include intermediaries, investors and borrowers. Financial market intermediaries, such as investment banks, securities houses, market makers and other organizations bring together investors and borrowers. They undertake the role of managing, underwriting and placing of issues. They themselves or those who represent them, such as dealers, trade and deal with these issues in the secondary market. In other words, they make markets for financial products and services.

TABLE 1. PARTICIPANTS AND ACTORS INVOLVED IN DOMESTIC AND REGIONAL FINANCIAL MARKET ACTIVITY

	Private	Public
Domestic	Stock exchange and OTC* market	Central governments
	Custody, settlement and clearing institutions	Central monetary authorities
	Listed companies, brokers, investors	Domestic supervisors
	Telecommunication service companies	Tax and legislative authorities
Regional	Intragrouping organizations and cooperation schemes of stock exchanges	Cooperation schemes among intra-grouping supervisory authorities, clearing and payments arrangements
	Global cooperation organizations among stock exchanges	International agencies

Source: United Nations Conference on Trade and Development, *The role of Regional Capital Markets in Enhancing Resource Mobilization and in Promoting their Efficient Use*, (UNCTAD/ECDC/246), 31 August 1994.

* Over-the-counter.

In ESCWA member countries with a formal stock exchange, the stock exchanges are clearly distinguished from the banking sector. In contrast, parallel and over-the-counter markets (e.g. in Egypt, Jordan, Kuwait and Bahrain) are dominated by commercial banks and/or securities-trading affiliates. In these countries, three major types of domestic private actors are involved in financial market operations, aimed at the mobilization, management and allocation of financial resources. These are the stock exchange, the parallel market and the over-the-counter market.

Stock exchanges play a far-reaching and wide ranging role in domestic and regional financial markets in the sense that they combine at one and the same time the functions of (a) an association of traders (brokers); (b) a service institution for investors; (c) a self-regulatory market, particularly in secondary trading.

In ESCWA member countries with capital account convertibility (such as the Gulf Cooperation Council (GCC) countries, Egypt and Lebanon), the authorization to engage in cross-border trading of shares and bonds and in cross-border listing of intergrouping companies is undermined by the restrictions on the access of non-nationals to the stock exchanges of these countries, notwithstanding the linkages they have established among their stock exchanges.

The second prominent group of domestic private P and A consists of domestic custody, settlement and clearing institutions. Settlement and clearing of trade in the financial markets in most ESCWA member countries are executed mainly by commercial banks.

The third prominent group of domestic private P and A includes listed companies and brokers on the stock exchange and individual and institutional investors. Intraregional trading in a financial instrument in the financial market of any ESCWA member country, although aimed in the first place at serving the interests of the constituents of that country, it, actually facilities the regional cooperation in the mobilization, management and allocation of financial resources.

Finally, any investment project in any ESCWA member country that takes into account the financial markets of other ESCWA member countries, would imply the participation of the telecommunication services of the countries of these markets in the establishment of acceptable telecommunication links among the markets and their P and A.

THE SCOPE FOR FUTURE ACTIONS AT ESCWA REGION'S STOCK EXCHANGES

A. CURRENT SITUATION

1. Channels of communication are not sufficiently fast. They are unevenly developed for a timely flow of information on economic, finance and company development;

2. Taxation policies are not harmonized;

3. Cross-border investments (i.e., transactions) are settled in United States dollar; and

4. Access to stock exchanges of individual ESCWA member countries is not totally free for the citizens of other ESCWA member countries.

B. DIRECTIONS OF POSSIBLE FUTURE DEVELOPMENT

1. Widening investment possibilities for individual and institutional investors from ESCWA member countries, especially for pension funds and life insurance companies (deepening of financial market integration);

2. Tapping into a larger pool of savings in ESCWA member countries (deepening of financial market integration);

3. Using stock exchanges for financing regional joint-ventures and projects (deepening of financial market integration);

4. Using national currencies in the settlement of transactions, once currency liberalization in individual ESCWA countries makes it possible (regional or limited convertibility);

5. Opening stock exchanges for listing companies already listed on stock exchanges of other ESCWA member countries (widening of financial market integration).

Source: United Nations Conference on Trade and Development, *The Role of Regional Capital Markets in Enhancing Resource Mobilization and in Promoting their Efficient Use,* (UNCTAD/ECDC/246), 31 August 1994.

2. *Regional private P and A*

Regional private arrangements and organizations, aimed at mobilizing, managing and allocating financial resources at a regional level, are expected to be created and maintained by the stock exchanges themselves. The opening up of the GCC countries' stock exchanges to the citizens of these countries, and the linkages that have been established between the stock exchanges in a number of ESCWA countries were expected to enhance financial cooperation, and, consequently, capital flows among ESCWA member countries.

The arrangements, however, still have to prove their usefulness in the mobilizing, managing and allocating financial resources in the ESCWA region. This is because the legal framework for cross-border financial transactions has been created by non-private supervisory agencies. While cross-border transactions between the financial markets of the GCC countries increased significantly, from around 5 per cent in 1992 to around 20 per cent in 1996 of their total transactions with the outside world, they remained, however, almost negligible, at around 0.5 per cent, with the other ESCWA countries. This lack of development in the relations between the stock exchanges of the GCC countries and those of the other ESCWA member countries indicates that there is still more room for improvement, provided that effective stock market rules and regulations are put in place, suitable financial instruments and transaction mechanisms are introduced, and efficient regional market makers and risk takers are created and developed.

3. *Domestic Public P and A*

Among the domestic public P and A, governments of ESCWA member countries play an important role as agents who create the general economic framework of trading in securities. The governments play a leading role in giving preferential treatment to intra-grouping investors. A typical example of government measures favouring intra-grouping securities investment is the non-reciprocal preferential scheme of Bahrain. It offers the scheme to GCC investors as a support to initiatives for cross-border trading on the Bahrain Stock Exchange. Since 1986, citizens of other GCC countries have been allowed to own and trade shares of local companies in Bahrain. Following suit has been Jordan since 1992 and Egypt since 1995.

Although the issue of cross-border trading is still associated with certain restrictions, it has been gaining ground in other ESCWA member countries, such as Kuwait, Lebanon and Oman. Cross-border trading has, in fact, been considered by most of these countries as a major vehicle for regional cooperation in the mobilization, management and allocation of financial resources.

A second important section of domestic public P and A are the monetary authorities. These play a key role in the regulation of settlements for cross-border transactions. In the case of the GCC countries, intra-GCC transactions are almost free of restrictions, leading to a *de facto* GCC area of capital account convertibility.

A third group of domestic public P and A are domestic supervisors (e.g. securities and exchange commissions) as well as tax and legislative authorities. These are crucial both to cross-border harmonization of rules and regulations and to discretionary treatment of intra-regional investors.

Based on this discussion, financial markets in the ESCWA region could initiate cooperative arrangements for cross-border listing and trading in financial instruments as long as the legal requirements are satisfied. The role of domestic public P and A consists of setting the legal requirements for trading qualifications, the standards for financial instruments, the methods of settlements of foreign exchange payments and, the tax regulations therein.

4. *Regional Public P and A*

Among the public P and A at the level of the ESCWA region, prominent status has been accorded to the cooperation scheme of the monetary authorities of the member countries. From time to time, these authorities discuss issues pertaining to the harmonization of the rules and regulations of the stock markets in ESCWA member countries, with a view to increasing financial resources flows among these countries. Standards of operations, norms of execution of activities, the creation of a uniform accounting and taxation standards, and other related matters, are usually among the chief topics on the agenda of these authorities.

C. REGULATORY ASPECTS

Enhancing the role of the ESCWA region's financial markets in mobilizing, managing and allocating financial resources depends greatly on several factors, which can either stimulate or hinder the development of these markets at a national level. Measures of deregulation are among the stimulating factors, while lack of flexibility in facing changing circumstances is among the hindering factors.

The regulations of ESCWA region's financial markets are thus of primary significance to a more effective role of these markets in the mobilization, management and allocation of financial resources. As in the case of most financial markets in other developing regions, the regulation of financial markets in the ESCWA region takes the form of:

1. Regulation of markets by government authorities, i.e., securities commissions (e.g. Jordan); central bank (e.g. Saudi Arabia); or a government ministry (e.g. Oman). The regulation takes place either through laws, direct government controls, or management of the market, especially where new issues are concerned (i.e., primary market);

2. Self-regulation by the markets themselves, with the government role being confined to oversight only (e.g. Bahrain);

However, regulations have many facets in the ESCWA region. The most important regulatory issues of the ESCWA region's financial markets that affect cross-border trading directly (and hence the mobilization, management and allocation of financial resources) are: related legislation (basic laws); design of supervisory agencies (regulations); capital account liberalization; and taxation.

The regulations seek to ensure that financial market institutions can withstand periods of crisis or the failure of a significant market P and A or a big customer. Therefore, the objectives of the regulations should subject trading in the financial market to extensive disclosure requirements to protect investors from fraud and to ensure an efficient process of mobilization, management and allocation of financial resources.

The following sections explain the above-mentioned regulatory issues and evaluate them from the point of view of potential regional cooperation in the mobilization, management and allocation of financial resources.

1. *Legislation (basic laws)*

The most relevant issue for the development of domestic financial markets in individual ESCWA member countries and for the potential regulation of these markets is a clear legal framework (e.g., a securities trading law) in each country, to be accompanied by other laws, such as company laws and decrees, that unambiguously specify the rules of trading in financial instruments. The legislative development in most of the ESCWA region's financial markets indicates that the markets combine advanced elements of legislation aimed at the protection of investors and borrowers. For example, capital market law in each of Bahrain, Egypt, Jordan, Kuwait and Lebanon subjects financial disclosure of listed companies to extensive scrutiny; trading in securities is regulated by decrees; securities and exchange commissions are established; and transparent, efficient and effective supervision is well placed. In Bahrain, Egypt and Kuwait, where secondary trading is almost self-regulated, and warrants and convertibles are recognized as new market instruments.

2. *Design of supervisory agencies*

Attempts towards the regionalization of financial markets in the ESCWA region have not been very successful, owing to the disruption caused by various irregularities (i.e., conflicting regulations) in these markets. The ESCWA region's financial markets form two distinct groups: financial markets which follow the one-agency model, such as Bahrain, Kuwait and Lebanon; and financial markets with fragmented flows of

supervision, such as Egypt, Jordan and Oman. Fragmentation of authority has, indeed, proved to be costly for financial market development. Because of this and other reasons, Jordan, for example, constituted in mid-1997 an exchange and securities commission as the sole body responsible for the supervision and operation of the Amman financial market (i.e., the stock exchange).

3. *Capital account liberalization*

The way through which authorities of ESCWA member countries regulate inward and outward investments in securities (i.e., the way through which authorities determine the degree of capital account liberalization) is an important factor for enhancing the process of regional cooperation in the mobilization, management and allocation of financial resources in the ESCWA region. Table 2 sums up such regulations in ESCWA member countries. It shows a varying degree of capital account liberalization in these countries. It also shows a divergence of regulations even within the same group of ESCWA member countries, and the scarcity of intra-regional preferences. Moreover, Table 2 indicates the inclination of a number of ESCWA member countries, particularly in the GCC group of countries, to restrict foreign ownership of securities.

TABLE 2. BASIC CHARACTERISTICS OF RESTRICTIONS ON INWARD/OUTWARD INVESTMENT IN FINANCIAL INSTRUMENTS IN ESCWA MEMBER COUNTRIES, AS AT END 1996

	Inward investment into domestic financial instruments		Restrictions on outward investments into foreign financial instruments
	Restrictions on inward investments	Limitation on share of foreign ownership	
Bahrain	None	No	None
Egypt	Free through authorized financial P and A	No	Free through authorized financial P and A
Iraq	Approval	Approval	Approval
Jordan	None	Up to 49 per cent[4]	Approval
Kuwait	Approval	Up to 49 per cent in new companies only. GCC nationals allowed to own 75 per cent	Listing of non-GCC companies. Subject to approval
Lebanon	None	No	None
Oman	Approval	Approval	None
Qatar	Approval	Approval	None
Saudi Arabia	Approval	Approval	None
Syrian Arab Republic	Approval	Approval	Approval
United Arab Emirates	None	No	None
Yemen	Approval	Approval	Approval

Source: International Monetary Fund, *Exchange Arrangements and Exchange Restrictions*, Annual Report, 1996.

4 In mid-1997, the Jordanian authorities were planning to allow foreigners to own 100 per cent of the total equities of companies in a number of economic sectors.

II. COOPERATION AMONG FINANCIAL MARKETS IN THE ESCWA REGION IN THE MOBILIZATION, MANAGEMENT AND ALLOCATION OF FINANCIAL RESOURCES

Each of the financial markets in the ESCWA region has developed in its own way to achieve the objectives for which it has been established. These objectives have always been mobilization, management and allocation of financial resources. The financial markets, however, often found themselves suffering from a number of common characteristics, which include those discussed below.

1. Modest volume of trade, lack of financial skills and market specialization and a limited number of financial instruments. The latter is indicated by the dominance of shares only. Indeed, the financial markets in the ESCWA region could be described as share markets. The lack of financial skills has been a major obstacle to the development of financial instruments suitable for the specific circumstances of the markets and the needs of various segments of the population. The unsatisfactory development of investment awareness of most segments of the population in ESCWA member countries is indicated by the preference for liquidity holding, by the retention of most shares in a few hands that prefer to withhold shares from trading, and last but not least, by the speculation that has characterized the operation of financial markets in the region in the last few years. These factors have not helped to attract domestic or regional investors to these markets. They have also hindered the enhancement of cooperation among the markets in mobilizing, managing and allocating financial resources.

2. Limited numbers of investment vehicles, such as investment banks, investment finance companies and securities houses that could arrange for mid- and long-term lending, thus helping to introduce, develop, and tailor financial instruments to meet the specific needs of market P and A. This has unfortunately disencouraged the development of the financial markets, nor has it enhanced cooperation among them in the mobilization, management and allocation of financial resources.

3. The nature of the sources of mid and long-term finance in the ESCWA region. The absence of sufficiently developed investment vehicles, together with the inability of the commercial banks to offer mid- and long-term finance, has been replaced by government-owned or sponsored development finance institutions. This has made government-to-government (or official) finance the major source of mid and long-term finance. These institutions determine the volume as well as the direction of capital flows among ESCWA member countries. As a result mid and long-term finance in the ESCWA region tends to be mainly off-market finance. It is carried over outside the ESCWA region's financial markets, and is determined neither by the mechanisms nor by the motivation of these markets.

As a result of what has just been discussed, the ESCWA region's financial markets have been incapable of cooperating effectively in the mobilization, management and allocation of financial resources. Indeed, in contrast to the capital outflow from the region that took place during the so-called oil-boom era in the 1970s and early 1980s, the capital outflow from the region that has been taking place ever since reflects the inability of the region's financial markets to absorb the presently lower domestic financial resources.[5] The financial markets have also failed to cooperate among each other to mobilize, manage and allocate resources on a regional basis.[6]

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5 This was considered to be due mainly to the unpreparedness of the economies of ESCWA member countries to absorb the "sudden" and large oil revenue surpluses.

6 For more information about foreign assets of Arab (including ESCWA) oil-exporting countries, see annex table at the end of the study.

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The financial markets in the ESCWA region, however, have gained in importance during the last few years. With government-to-government finance constituting the major source of mid and long-term finance, governments as well as governmental institutions and public organizations have begun to determine the pace of development in these markets and the extent of their cooperation in the mobilization, management and allocation of financial resources. Consequently, governments determined the price structure of regional financial services. As a result, the effects of demand and supply of regional mid and long-term capital on the price structure of financial services have generally been of secondary importance.

Cooperation among the financial markets of the ESCWA region still requires extensive involvement from the private sector. To achieve this cooperation, there is a need to develop a "free" market economic system, a trust-building investment environment, and a sufficiently absorptive capacity of the economy. A pre-condition of cooperation, however, would be the existence of a feasible and liberal legal, administrative and institutional framework, the presence of efficient financial intermediaries, diversified and attractive financial instruments, and other measures, such as the creation of a liberal tax system, provided qualified financial specialists and an efficient telecommunication system were in place.

The "unsatisfactory" state of the financial markets in the region and the weak and rather informal relationships among most of them are not caused by a low level of national savings (although this is true for ESCWA countries with more diversified economies) nor are they caused by the low level of demand for available financial resources. The weakness of these markets and the unsatisfactory level of cooperation among them could be attributed to very stronly the imbalance between demand and supply regarding types and maturities of available financial resources. Moreover, the financial markets in the region are thin by virtue of their recent establishment, and by the fact that the region's investors traditionally prefer liquid or short-term assets rather than mid or long-term funding for their investment projects. Therefore, cooperation among the region's financial markets requires the development of financial institutions and intermediaries to establish a balance between the investors' preference for liquid and short-term funding and the borrowers' need for long-term funding. In other words, the increase of capital flow among ESCWA member countries requires the existence of financial institutions that are capable of changing available financial resources into commercial long-term financial resources based on the competitive terms of the market.

The low level of intra-ESCWA trade, equivalent to less than 8 per cent of the total volume of the region's foreign trade, has not been an encouraging factor for enhancing cooperation among the financial markets. Currently, relations between these markets and the international financial markets are more direct and "stronger" than relations among the ESCWA region's financial markets themselves. A clear indication of this can be seen in the international bank credit and lending facilities arranged for borrowers from ESCWA member countries by the ESCWA region's banks and financial institutions in the international financial markets.

The experience acquired by these banks and institutions during the last 15 to 20 years in the international financial markets should enhance the financial management skills in the region's financial markets and enable the markets to cooperate with each other in the mobilization, management and allocation of financial resources.

The following is a brief analysis of the state of cooperation between the financial markets in the region in the mobilization, management and allocation of financial resources. The analysis reflects the scope of the cooperation, the strengths and weaknesses of the markets, the impediments to the cooperation and the challenges and opportunities the markets face.

A. SCOPE OF COOPERATION

Cooperation among financial markets in the region (and consequently capital flows among these markets), is determined by the state of these markets and the respective legal, administrative, and institutional (and monetary) restrictions applied.

With regard to the financial markets in the GCC countries, most of the markets are restrictive with respect to non-nationals who intend to do business in them. They are also restrictive with respect to the registration of non-domestically incorporated companies and to the placing of foreign financial instruments in public. The markets, however, are liberal with respect to capital outflow.

With regard to the financial markets of the other ESCWA member countries, these markets are (more or less) restrictive with respect to capital outflow, but liberal with respect to capital inflow.

The restrictions applied by the financial markets in the GCC countries could be attributed, on the one hand, to the intention of the authorities of these countries to reserve the limited domestic investment outlets for their own citizens, and on the other, to the efforts of the authorities to protect their citizens from fictitious foreign companies that could invite public subscription. The restrictions of the other group of ESCWA member countries however, could be attributed to the fact that the countries concerned are mainly capital-importing countries.

Enhancement of the scope of cooperation among ESCWA member countries should be preceded by lifting the restrictions, particularly those imposed in both groups of countries in the region on the placing of instruments by companies. By doing so, the savings of citizens in these countries would be directed towards productive investments in the region, given a competitive investment environment. This cooperation would ultimately help the financial markets to become a major vehicle for the promotion of the investment environment in the member countries.

An indicated earlier, financial markets in the ESCWA region have not been very successful in playing effectively the role designed for them in promoting investments on a local as well as a regional level. The legal, administrative and institutional infrastructures of these markets have not been adequately developed. This has constituted obstacles towards mobilizing, managing and allocating financial resources which have in fact, reduced the possibilities of enlarging the scope of cooperation among the markets. There are, in addition, still other factors affecting the scope of cooperation among the financial markets in the ESCWA region. They include:

1. The insufficiently developed savings and banking habits of the small savers who constitute the majority of the population in all ESCWA member countries;

2. The preference for liquid and short-term assets by major segments of the population in these countries;

3. Government expenditure being channelled directly to projects instead of being conducted by organized market intermediation mechanisms.

Moreover, political, financial and developmental economic risks and conditions in some ESCWA member countries have not been helpful in promoting cooperation among the financial markets in the region in mobilizing, managing and allocating financial resources. Minimizing the risks and improving conditions by making the markets competitive would enhance the scope of cooperation and facilitate a smooth capital flow, a process that will promote investment.

Cooperation among the region's financial markets also requires well-organized (primary and secondary) markets, and harmonization of the operational frameworks of these markets. It will also require clear and well established policies, procedures and norms of businesses. Failure in this respect often causes market business to shift from the less organized markets to the well-organized ones, with punishing consequences for the former. Thus, to enhance the scope of cooperation among the ESCWA region's financial markets, the following issues must be addressed:

1. Investment in public shareholding companies should be promoted. This can be achieved through:

(a) Reducing tax rates on profits and dividends to levels lower than those levied on returns from commercial bank deposits. Such a measure would make investment in company stocks more attractive than just "putting money in the bank";

(b) Combining the elimination of the minimum number of stocks that can be subscribed to by individual investors, with fixing of nominal stock prices at levels which the small investor can afford, to by encourage investment in the stocks of public shareholding companies. This would enhance the ability of the financial markets to mobilize, manage and allocate available financial resources;

(c) Liberalizing the regulations and procedures related to the transfer of profits and dividends, especially for citizens from non GCC Arab countries who reside in GCC countries. This would give assurance to these citizens that they could dispose of their investment returns at any time in the currency of their choice, and would increase their willingness to invest in their home countries;

(d) Tightening supervision of the business conduct and activities of public shareholding companies, and establishing stricter examination procedures regarding their information and financial disclosures. This would help to build trust and enhance the public willingness to invest in them;

(e) Transforming public sector enterprises into public shareholding companies (privatization) and attracting investment in these companies would increase the financial markets ability to mobilize, manage and allocate financial resources;

(f) Developing efficient market infrastructure to promote the business of the financial institutions.

With regard to the primary market, strengthening the capital base and improving the efficiency of the management of the underwriting business of investment institutions would increase the placing power of these institutions and speed up the time taken to subscribe to an issue. The present time-consuming methods of marketing issues have in many cases decreased the interest of potential investors in the issues. As a result, a number of market institutions have not been able to place new issues fully in the market and have therefore, been forced to place the unsold portion of these issues in their own portfolio in developed financial markets. It should be noted that managers and underwriters may use this either as a tacit instrument in their own investment strategy or as a means to manipulate the terms of issues, especially those connected to the spread and value at par. In the financial markets of the ESCWA region this has not been the case.

With regard to the secondary market, the absence of qualified market makers willing to buy and sell and who frequently deal with financial instruments in volumes that others can buy and sell a at time of their choice, does not help the market to stabilize. On the contrary, this encourages speculation and prevents participation of small investors. In addition, the lack of qualified traders and dealers who, in addition to buying and selling financial instruments for others, also offer financial and investment advisory services to customers, does not favour the establishment of a trust-building environment, nor does it help to mobilize, manage and allocate financial resources, be it locally or regionally.

2. Financial instruments should be diversified to suit the income as well as the religious beliefs of the various segments of the population in the region. This would encourage them to invest in the market. It would also enhance the capability of the markets to cooperate in mobilizing, managing and allocating financial resources.

B. STRENGTHS AND WEAKNESSES[7]

If cooperation among the ESCWA region's financial markets (in the mobilization, management and allocation for financial resources) has not been as successful as desired, it should not be interpreted as a sign of failure of the markets. It may in fact be indicative of the level of efficiency of these markets on a regional basis. However, in their search for an applicable formula to provide the financial services required to fund local and regional investments, these markets reveal strong and weak points.

The points of strength include:

1. Existence of many public and private financial institutions with reasonably adequate capitalization and capable of raising new capital, whenever necessary;

2. Capability of the existing financial markets to develop further and provide various financial services, provided that primary and secondary market issues are satisfactorily addressed;

3. Recognition by the monetary authorities of ESCWA member countries of the need for flexible policies when dealing with regional aspects of local financial policy;

4. As a whole, the aggregate size of the economies of ESCWA member countries is reasonably large, and the size of many enterprises and investment requirements is sufficient to justify economies of scale in operations involving low-cost financial intermediation. In other words, the demand for investment and financial services is large enough and frequent enough to justify the creation of specialized financial intermediaries on a regional basis, although this may not be the case on an individual country basis;

5. Several multinational and international financial institutions have established offices in many ESCWA member countries in order to benefit from closer financial relations with the financial institutions of the region. Consideration should be given to obtaining the assistance of these institutions in the drive for the ESCWA region's financial markets towards cooperation and integration. This should be acceptable as most of the business of these institutions is of a regional and intercountry nature;

6. Common culture and norms of the region provide an important catalyst for the easier formulation of common goals and objectives for newly created financial instruments and services.

In considering the weaknesses, special attention has been given to the practical aspects of cooperation among the financial markets and to the role of the intermediation in this process. The following are the main features of the weaknesses:

(a) The number of financial instruments directed at the general public is very limited. Where public issues of securities are available, they are mostly restricted to citizens of the country of issue, or are small in denomination and aggregate size. This has rendered impractical the economies of scale of mass marketing on a regional basis.

(b) Linkages between organized institutions of the ESCWA region's financial markets are not adequate enough. For example, equity securities traded on the Amman financial market do not have linkage with any equity market in the region. On the debt side, loan syndications, for example, those in Kuwait or Bahrain, for medium or long-term needs, are basically local operations, although many of the same financial institutions operate (in one way or another) both locally and regionally.

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7 Based on: United Nations Economic and Social Commission for Western Asia, Development Planning Division, *Financial Markets and Investment Promotion in the ESCWA Region,*(E/ESCWA/DPD/1990/2), 22 February 1990.

(c) A major point of weakness is the lack of proper communications (fast, efficient and reliable) between the region's financial markets. Indeed, it is easier to communicate with London, Tokyo or New York from the region's financial markets, than for these markets to communicate with each other.

(d) The legal aspects of financial transactions do not seem to be well understood by the officials and administrators of ESCWA member countries. Proper financial intermediation creates the need for secure financial services. There is great doubt in the minds of issuers and investors in financial instruments regarding the transfer of titles, ownership rights, inheritance rights, taxability and mobility.

(e) Financial executives in ESCWA member countries look at the financial assets in the region with a considerable degree of caution. Very little venture capital is allocated to the regional market. Consequently, the risky nature of this market is much higher than that which is acceptable to many individual financial institutions.

C. IMPEDIMENTS TO COOPERATION

As mentioned earlier, the inadequately developed legal, administrative and institutional infrastructures of the financial markets in the region have constituted major impediments to effective cooperation among these markets in mobilizing, managing and allocating financial resources at the regional level.

The following is a summary of these impediments:

1. The lack of a developed legal and organizational infrastructure. It is fair to say that in contrast to the organizational constitution of primary markets, which has developed relatively satisfactorily over the last few years, the legal constitution has not. Evidence of this is seen in the frequent changes in the legal infrastructure and the subsequent amendments.

With regard to the secondary markets, these are either partially or barely organized. Administrative rather than legal regulations and procedures determine the businesses processed in these markets, thus leaving the businesses legally almost unprotected. The small investor, in particular, is at the mercy of arbitrary price fluctuations caused mainly by speculation.

2. The narrowness and lack of depth of the markets. The types of financial instruments traded in most of the ESCWA region's financial markets is very limited. In some of these markets, the financial instruments are limited to shares of public shareholding companies. An indication of the lack of depth of the markets is that any change in the extent of market business, regardless of volume, can cause a fluctuation in market prices.

Two factors account for this:

(a) The limited supply of financial instruments. The shares (or stocks) of public shareholding companies constitute the major (and in some cases the only) financial instrument traded in these markets. There are a number of reasons for this:

(i) With regard to GCC countries, the limited number of investment outlets, i.e., the low absorptive capacity of the national economies of these countries with respect to available financial resources, tends to limit the introduction or development of new financial instruments for domestic use;

(ii) With regard to ESCWA countries with more diversified economies, the significant government subscription in the equities of most public shareholding companies limits the public subscription, and, as a result, limits the supply of trading shares in the financial markets;

(iii) The prevailing attitudes of most large investors regarding the establishment of companies where the separation of management and ownership is not permitted, or where there is a preference to keep the company in family hands.

(b) The limited demand for financial instruments. This may be attributed to the following:

(i) Low savings ratios, particularly in ESCWA countries with more diversified economies, and the traditional preference for liquid or "near-liquid" assets. This reduces the potential for investment in less liquid assets and consequently the demand for financial instruments;

(ii) The usually low return on investment in the region's financial markets compared with that on real estate or properties. For most of the last two decades, these last areas of investment have been the major investment outlets in most ESCWA member countries, hence, limiting the demand for financial instruments as an investment outlet.

D. CHALLENGES AND OPPORTUNITIES

As mentioned earlier, cooperation among the region's financial markets is challenged by a number of factors. These factors must be confronted first, before the available or potential opportunities for the cooperation can be exploited. The following are a number of these factors:

1. Limitations on private sector initiatives and capital movements among the different economic sectors;

2. The capacity of the economy to absorb available or potential financial resources;

3. Lack of:

   (a) Efficient legal, administrative and institutional framework and infrastructure;

   (b) Sufficiently sophisticated financial institutions and intermediaries;

   (c) Diversified financial instruments to suit the investment needs of most segments of the population;

   (d) Sophisticated skills and sophisticated communications systems; and

   (e) Trust-building monetary, financial and economic policies.

From the standpoint of the state of each ESCWA country's financial system, there is a need for a financial market. This market is important for the improvement of the functioning of financial resources in economic development. This is an important method for making assets more liquid, provided that a satisfactory network for the mobilization, management and allocation of financial resources is available. Such a network would consist primarily of commercial banks, investment banks, securities houses, savings banks and institutions, etc. The financial market will in this case contribute to the financial development of the economy, provided that banking habits and savings awareness are sufficiently developed.

Once these conditions are met, the financial market will modify the structure of savings, directing them towards investment in productive projects. The allocation of savings resources among competing demands will, as a result, be improved.

In order for the region's financial markets to mobilize financial resources effectively, they have to overcome their habit of limiting themselves to "long-term savers". The latter are normally small in number and prefer to invest their funds in non-liquid, or fixed assets. The financial markets should instead pay more attention to "small savers" who constitute the majority of the population and whose financial resources could be

tapped easily as they are mostly in liquid form. The financial markets would, in this way, increase the banking, savings and investment awareness of these savers and contribute to their own development.

To achieve this, the various components of the financial markets must be realized and a regional network of cooperation must be created. Furthermore, the financial markets must show themselves imaginative and realistic by adapting financial instruments tailored to the needs of customers. Adequate financial and monetary policies and techniques will encourage businesses entering the market and will help savers to invest in areas other than the traditional ones. In addition, such policies and techniques should be both coherent and stable in order to build trust and confidence. This is necessary because savers are usually sensitive to the difference in rates of return between different types of investments and to the degree of protection these rates offer against inflation. Savers seek either a secured return on, or the potential growth of, their investments. Financial markets, therefore, must obtain sufficient information about the savers' attitudes in order to determine the investments and policies that suit their needs effectively.

Information is crucial if financial markets in the ESCWA region are to be effective in mobilizing, managing and allocating financial resources. The problem of information arises at several levels. First, there is the information available to market participants concerning companies that make public calls on savings. Market participants must have access to clear, regular, verified and comparable information on companies. The call on savings must give the savers precise, objective and sufficiently comprehensive information on the company's structure, activities and profits. Where the presentation of the balance sheet and the profit and loss accounts are concerned, the information should be particularly accurate.

Information plays another important role in the financial market. For example, market participants with insider information can greatly benefit from the market. This happens at the expense of the small investor. The smaller the market, the more important the role of the information. This can be explained as follows: In large markets, big investors usually do not own large portions of the total number of market stocks. Therefore, the operations that might be based on insider information will not affect stock prices greatly. The opposite will occur in small markets, such as the ESCWA region's financial markets. Here, price swings are normally larger than in the international financial markets; market participants can destabilize the market more easily and then make a profit at the expense of the small saver.

Nevertheless, the smaller the market, the more impediments there will be to its development. This is because when the number of people offering and seeking stocks is small, there would not be a proper market. When there is no stock exchange, transactions between suppliers and seekers of funds will be carried out privately, as the case in the United Arab Emirates, Qatar, Yemen and the Syrian Arab Republic. Private transactions would not actually cease to exist with the establishment of a stock exchange, but with a stock exchange in existence, a third party is given the opportunity to purchase stocks that may be considered attractive. Furthermore, fund seekers (i.e., borrowers) can choose between two alternatives when obtaining funds: either placing stocks with chosen investors through a private transaction (i.e., private placement), or making a public call on savings through the stock exchange (i.e., public placement). Since private placement is less costly and can be easily controlled by the borrower, it often happens that the borrower opts for this option.

To conclude this section, the smaller the market, the more important the role of information for its functioning, otherwise the more its development will be hampered. With the size of the region's financial markets being small (in volume as well as in value of trade), compared to that of international financial markets, it is in the interest of the region's financial markets to cooperate in the process of mobilizing, managing and allocating financial resources to make use of the economies of scale in establishing and developing an integrated regional system of information.

A second conclusion is that there is a real shortage of capital flow among ESCWA member countries. The present state of the ESCWA region's financial markets does not qualify the markets to maintain or enhance a sufficient capital flow among these countries. As a result, cooperation among the region's financial markets is a challenge which must be faced to ensure their continued existence.

III. THE ROLE OF NATIONAL AND REGIONAL DEVELOPMENT FINANCE INSTITUTIONS IN THE MOBILIZATION, MANAGEMENT AND ALLOCATION OF FINANCIAL RESOURCES IN THE ESCWA REGION

The goals of national and regional development finance institutions are typically broadly defined and subject to interpretations which differ according to the types of institutions involved. The mandate of these institutions, however, is to promote growth at national and regional levels. This has resulted in different types of activities in the region, depending on the structure of the economy, the level of government's influence, and the institution's management perception of the needs of economic development. The mandate of regional development finance institutions is subject to regional arrangements among member countries and to the endowments of the institutions themselves. The design of regional development finance institutions as a medium of facilitating regional development finance, i.e., mobilizing and allocating financial resources, is a major factor that affects the regional arrangements.

Unlike typical financial institutions, such as commercial banks and investment houses, the activity of the region's development finance institutions is confined mainly to the allocation of financial resources. The funding of these institutions originates mostly from the governments of their countries, as in the case of national development finance institutions, or from the subscription of the participating countries, as in the case of regional development finance institutions. The availability of funding for both types of institutions has made it unnecessary for them to become strongly involved in any major activity aimed at raising funds in the financial markets or from other sources.

The lending of both types of institutions (i.e., the allocation of financial resources) is usually on soft terms and directed mainly at economic sectors that have been given priority by the governments in their economic development efforts.

The following is a summary of the role of both types of institutions in the mobilization, management and allocation of financial resources.

A. NATIONAL DEVELOPMENT FINANCE INSTITUTIONS[8]

While the primary objective of the national development finance institutions is supposed to assist in maintaining the well-being and growth of the economy, these institutions are generally interested in, if not profit making, at least avoiding losses. The degree of financial viability of the development finance institution itself affects the level of its resources (i.e., its "financial strength"), and consequently its capability in mobilizing, managing and allocating financial resources. There is, however, a conflict between the inancial viability of the institutions and their role in this respect. This, indeed, is behind the practice of most national development finance institutions of restricting their long-term development loans (i.e. allocation of financial resources) to marginally productive projects. Such a policy trends to reduce the effectiveness of the institutions. Large companies are usually capable of obtaining these loans from conventional banking sources, either directly through borrowing from these sources or indirectly through financial market mediums that issue and place securities on behalf of the borrowers. However, small and medium-sized enterprises, which are unable to use either of those methods of funding, depend mainly on their local development finance institutions for their mid and long-term funding.

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8 Based on : United Nations Economic and Social Commission for Western Asia, Development Planning Division, *Growth of Development Finance Institutions and Financial Resource Needs of Selected ESCWA Member Countries*, (E/ESCWA/DPD/86/6), February 1987.

The medium that is supposed to play an important role in the mobilizing, managing and allocating of financial resources by development finance institutions is the project evaluation. The terms of loans of these institutions are usually soft and the institutions are often faced with too many loan applications. This situation causes the institutions to be conservative in their project evaluation, in order to ensure long-term financial viability and adherence to the goal of promoting economic development. The role of the development finance institutions in the development process, i.e., in allocating the needed financial resources, can be passive or active. It is passive when the institution simply reacts to the projects brought to its attention and fails to respond to changes in the economic and financial structure that inevitably take place as the economy develops. The role is active, on the other hand, when the development finance institution takes initiative in the economic development process by identifying economic sectors and industries that possess growth potential, and by actively encouraging or supporting them.

These institutions evolve with the changing environment and become an active component in the financial system which develops with the economy. Changes in development strategy and the need for new resources and opportunities for domestic businesses, may also necessitate a flexible response from national development finance institutions. A national development finance institution that perceives its role as flexible and adapts to economic development is likely to be a viable institution capable of playing a significant role in mobilizing, managing and allocating financial resources, and influencing long-term economic development. A national development finance institution that takes a narrow view of its role and grants loans (allocates financial resources) in a passive manner, would influence the economy only at one stage of its development. The institution, moreover, will become ineffective with time as the needs of the economy and individual companies for financial resources mature.

The national development finance institutions in a number of ESCWA member countries, such as Jordan, the Syrian Arab Republic, and Egypt have been playing a major role in the allocation of financial resources. These institutions still depend largely on official funding to meet their needs, be it deposits or loans from the government or the central bank, and foreign aid and grants. The rising fiscal burdens in most ESCWA member countries may force the national development finance institutions to look for funds in the financial markets. By doing so, the national development finance institutions would have a chance to participate actively in the development of these markets.

B. REGIONAL DEVELOPMENT FINANCE INSTITUTIONS

Institutional arrangements have been established in the Arab (including ESCWA) region for the purpose of promoting regional economic cooperation and integration. Regional development finance institutions have been a major feature of these arrangements. By their very act of providing project finance in the region they add to regional cooperation efforts. These efforts could be further promoted where regional development finance institutions are used (or make use of themselves) as financial market vehicles for channelling funds among ESCWA member countries.

Development finance institutions operating on a regional basis are important examples of regional organizations that mobilize, manage and allocate financial resources on the regional level, i.e., make available financial resources for development on a regional level.[9] The Arab Fund for Economic and Social Development encourages private investment that emphasizes the development of regional joint-venturers. The Arab Investment Company promotes the investment of financial resources of the Arab (including ESCWA) countries in the economic development of the countries of the region. The Arab Monetary Fund, established to serve primarily in the financing of balance of payments deficits, has extended its activities to facilitating inter-Arab (including ESCWA) trade.

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9 Such as the Arab Fund for Economic and Social Development; the Arab Investment Company; the Arab Authority for Agricultural Investment and Development, etc.

The regional development finance institutions in the ESCWA region are funded by the governments of the states of the Arab League, i.e., by ESCWA and non-ESCWA Arab countries. They are expected to contribute to the efficient allocation of financial resources at their disposal for investment finance, by providing, (as in the case of national development finance institutions), soft-term loans and related services.

Contrary to the lending practice of the national development finance institutions, the lending of the regional development finance institutions is not limited to the public sector. It extends to the private sector, with the host government guaranteeing the lending (sovereign risk).

Most regional development finance institutions have exhausted their usual funding sources and are becoming increasingly dependent on repayment of past loans for new loans. The current economic conditions in the ESCWA region have changed the dynamics of the regional development finance institutions. Indeed, many of these institutions consider their situation as one of static or no growth in the foreseeable future.

The activities of the regional development finance institutions in the region's financial markets remained very limited in the past, in spite of the high leverage these institutions enjoyed. With their current low leverage and credit rating, and in the absence of a strong impetus from the financial markets, the institutions are not expected to establish themselves as market participants, either at present or in the foreseeable future.

Instead of using the current unfavourable state of finance in the ESCWA region as an incentive to rethink their role in the mobilization, management and allocation of financial resources, i.e., to rethink their development finance policies and enact changes in line with the changing development finance needs of the region, development finance institutions have continued performing the same credit policies that proved to be unfeasible in the past. These policies have, in fact, led to them exhausting their funding sources. It is also presently unlikely that they can be compensated, whether by the funding governments, themselves suffering from a serious savings gap, or by the region's financial markets, which neither possess the necessary "financial technology" (financial engineering) nor have sufficient liquidity.

IV. PROPOSALS FOR FOSTERING REGIONAL COOPERATION IN THE MOBILIZATION, MANAGEMENT AND ALLOCATION OF FINANCIAL RESOURCES IN THE ESCWA REGION

Fostering regional cooperation in the mobilization, management and allocation of financial resources in the ESCWA region will entail a process of nurturing domestic markets and regionally harmonized actions. The first is necessary to attain cooperation among ESCWA region's financial markets, and the second to integrate these markets. To promote this process, the following proposals are made:

A. IMPROVED MARKET OPERATIONS

The main challenge for the region's financial markets will be to match the supply of and the demand for funds within the region as a whole. The success of the ESCWA region's financial markets beyond national boundaries will be measured by the markets' ability to achieve an efficient flow of savings from the GCC countries (which are still surplus countries) to ESCWA countries with more diversified economies (which are still deficit countries). The success will also be measured by the financial markets' ability to allocate the balance of payments' surpluses of the GCC countries to the most efficient economic sectors within the region.

A complication peculiar to the GCC countries arises from the fact that oil revenues accrue almost exclusively in the first instance to their governments. This creates challenges with regard to sharing the benefits with the public at large. In addition, government decisions with regard to the placement and use of these revenues dominate the financial markets. It is often difficult for the governments to see their projects in terms of competing for resources with the private sector, especially when the governments already possess the funds.[10]

Investments in infrastructure pose such a problem. If resources are to be used sufficiently, efforts must be made to compare imputed returns with alternative uses of available resources. The difficult choice of whether to invest funds domestically, regionally or abroad is made simply and correctly (from the point of view of growth maximization) by a properly functioning financial market which supplies the available funds to the highest bidder (risk-adjusted), whether domestic, regional or foreign.

Until now, financial markets in the ESCWA region have not been very successful in attracting government-held financial resources. The part of government savings which could be invested through the ESCWA region's financial markets will continue to be limited by the importance of government-to-government transactions in the form of direct grants or credits given on concessionary terms. These savings will also be limited by the need for a geographical division of risks and for a wide diversification of assets. The amounts involved, however, are of such a magnitude that channelling only a small percentage of government investments through the ESCWA region's financial markets would represent a considerable boost for these markets. Achieving this objective will require not only the goodwill of the governments of ESCWA member countries involved, but also the establishment of a more appropriate mechanism to introduce government savings into the market. The mechanism prescribed includes the use of an auction system, i.e., the reverse of the system used to auction off treasury bills in a number of countries.

The absence of organized intermediary mechanisms in most of the ESCWA region's financial markets has limited the passing of government capital expenditures through the economic cycles in these countries to only one time instead of the four or five times which are usually typical for financially developed economies. As long as such intermediation functions remain absent there is little hope that local or regional financial payments (i.e., local or regional mobilization and allocation of financial resources) will be stimulated without the support of government expenditures.

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10 United Nations Economic and Social Commission for Western Asia Development Planning Division, *Financial Markets and Investment Promotion in the ESCWA Region*, (E/ESCWA/DPD/1990/2), 22 February 1990.

B. EFFICIENT LEGAL AND REGULATORY FRAMEWORK

Developing the ESCWA region's financial markets to a level where they could cooperate efficiently in mobilizing, managing and allocating financial resources requires a supportive legal infrastructure that defines and interprets commercial contracts, collateral and property ownership forms and rights, together with a system of courts to settle "justly" and without delay differences between borrowers and lenders. In order to serve the needs of sophisticated savers, attention should also be given to the enactment of modern trust, securities and insurance laws.

The region's financial markets cannot be expected to fulfil the role assigned to them unless there is a reasonably liberal attitude towards banking and capital flows. Financial intermediation and other financial market services are performed in response to the profit potential of satisfying a demand and not to "national or patriotic appeals".[11] Financial institutions must be free to use their market knowledge and expertise to their own best advantage. Above all else, interest rates must be allowed to reflect market conditions. No other single factor has greater importance in attracting the highest possible voluntary savings and in putting them to the most productive use than market-determined interest rates.

Efforts to regulate interest rates tend to stifle the use and marketability of financial instruments, artificially stimulate the emergence of new and less efficient financial instruments, discourage saving and wrongly allocate what is saved. In the final analysis, efforts to regulate interest rates will only thwart the evolution of financial markets appropriate to the ESCWA region.

C. EFFECTIVE INSTITUTIONAL INFRASTRUCTURE

Commercial banks are the backbone of financial markets in practically all ESCWA member countries. It is this type of bank that has introduced financial instruments into these markets to attract the funds of surplus-spending units, and has initiated a number of financial services, such as underwriting, brokerage and foreign exchange trading.

However, because of the structure of their deposits, commercial banks tend to concentrate on short-term lending, rather than medium-and long-term credit. They, therefore, have to be supplemented by specialized financial institutions (investment banks and houses) offering greater expertise in the more specialized areas of the clients they serve.

While both types of institutions have been acting in most of the ESCWA region's financial markets since the early 1990s, the demarcation of their spheres of activities should not be overly rigid. The current trend is towards removing this distinction.

The nature of the development of the region's financial markets during the last few years reveals a trend towards the creation of new financial services and programmes directed at meeting the economic demands of the region. In general, these services have been created to a large extent by the public sector. There has been minimal coordination with privately-owned financial institutions. In this regard, development funds and organizations have been established with little, if any, participation on the part of the private sector.

The trend towards the setting up of such institutions was more pronounced in the mid-1970s and early 1980s, when the oil price increases resulted in the accumulation of significant financial resources by the GCC countries. However, unlike to the setting-up of such institutions, which sprang not from practical aspects and developments in the financial environment but from the abstract designs and programmes of governments and

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11 Ibid.

government-owned bodies, private financial institutions emerged from the bottom of the economic superstructure of ESCWA member countries. It is, indeed, these private financial institutions that have responded to the increased demand for financial service, resulting from the economic expansion in the region. But while it can be said that the commercial banking operations and services were not able to rise to the challenge of the occasion, it is not certain whether they were able or not to promote and foster a regional role for these financial services.

Therefore, commercial banks should be encouraged to meet other types of credit demand, while the investment banks and houses should be permitted to enter what has hitherto been considered to be the domain of the commercial banks. The activities of investment banks and houses should aim to promote, accelerate and increase regional cooperation in the mobilization, management and allocation of financial resources. They should aim to offer the range of services that customers expect: underwriting houses to help finance private and public sector projects; brokerage firms to provide for the smooth functioning of money, stock and bond markets; trust companies to cater for the needs of private customers; depository services to facilitate settlements on the secondary market, etc.

D. USE OF CURRENCIES OF ESCWA MEMBER COUNTRIES IN FINANCIAL TRANSACTIONS[12]

Had the three previous proposals for fostering regional cooperation in the mobilization, management and allocation of financial resources been established, protecting the domestic value of the domestic currency would have emerged as a significant issue in the drive for regional cooperation in the mobilizing, managing and allocating of financial resources in the region. No other positive step is likely to be as important as protecting this value. It is vital not only in encouraging the expansion of banking habits, but for rational financial planning at all levels of economic activity. The return on financial assets must be attractive relative to alternative forms of saving (such as real estate and durables), but that return must be attractive in real terms as well.

Ensuring the value of financial assets means ensuring the stability of the purchasing power of money. This is because money is an important financial asset itself and because the principal and interest on other financial assets are usually fixed in money terms. The task that of ensuring price stability falls to the central banks in their capacity as overseers of foreign exchange markets and the creation of domestic credit by banks. It also falls on the ministries of finance in their capacity as investors of a substantial part of financial surpluses and as demanders for credit to finance development projects or other sources of government deficits.

While protection against the possible depreciation of a currency is essential to the holders of financial claims denominated in that currency, borrowers also seek a reasonable guarantee against the appreciation of the currency in which their debts are denominated. This is especially important in view of the trend towards using currencies other than the United States dollar in the ESCWA region's financial markets. This trend is likely to continue for some time. It is a world-wide phenomenon and is basically a reaction to exchange risk brought about by a speculative and more uncertain dollar.

Exchange risk is reduced both by holding foreign assets denominated in the currencies of those countries whose goods and services are most likely to be ultimately claimed, and by the simple logic of portfolio diversification. However, this substitution of ESCWA member countries' currencies for the dollar is somewhat restrained by the fear of a significant fluctuation of the currencies of the member countries, particularly those of the GCC countries; and by the reluctance of the latter to have their currencies used as a reserve medium by other ESCWA member countries.

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12 Based in part on an earlier ESCWA study: *Financial Resources Availability and Management in the ESCWA Region*, (E/ESCWA/DPD/1992/12), 5 January 1993.

In the GCC counties, the oil sector accounts for a large percentage of GDP, and the oil revenues for an overwhelming proportion of export earnings. The exchange rate of the currencies of these countries is not determined by market forces but rather by an administrative decision. In theory, it is conceivable that, to demonstrate the strength of its currency or to neutralize the effects of "international" inflation, or both, a country might resort to a significant appreciation of its currency. This would have no effect on the country's export earnings expressed in dollars, and would only have a limited impact on imports. With no change in government expenditures, the currency appreciation would reduce the budget surplus and benefit the private sector through a decline in the price of imported goods and services.

The possibility of a major appreciation of some of the GCC countries' currencies goes a long way to explain the very few first-rate borrowers for the markets of these countries. However, many factors mitigate against such a move. The redistribution of purchasing power from the public to the private sector as a result of the appreciation of the local currency would reduce the national rate of savings and the build-up of official alternative assets for the depletion of a natural resource. It would mostly benefit the private sector, including the expatriate population, and encourage imports of consumer goods and services. Another factor would also work against a major appreciation: the GCC countries are attempting to diversify their economies through the establishment of capital-intensive industries based on their natural resources and they would be reluctant to jeopardize the international competitiveness of these new industries.

The denomination of financial assets in local currency implies the use of that currency as a reserve currency to a certain extent. The aversion of a number of GCC countries to such a development has been exemplified by the adverse reaction of Kuwait and Saudi Arabia to the use of their currencies by Bahrain offshore banking units.

If a regional financial market is to develop in its own right as something more than an offspring of the Euromarket, it is imperative that the GCC countries accept the sharing of responsibility for reserve currencies, albeit to a modest degree. Certainly, there are ways to divide the burden, either by creating a monetary union or by agreeing to use a basket of the strongest currencies of these countries. Alternatively, consideration might also be given to denominating claims in Special Drawing Rights (SDRs) or in European Currency Units (ECUs).

V. CONCLUSIONS AND RECOMMENDATIONS AND SUGGESTIONS FOR A PLAN OF ACTION

A. CONCLUSIONS AND RECOMMENDATIONS

1. Regional cooperation in the mobilization, management and allocation of financial resources would best be carried out through the region's financial markets. These mediate between the demand for and the supply of funds. In doing so, they help to establish a regional financial balance at different levels of maturity in the region. Cooperation among these markets requires the development of financial institutions and intermediaries to create a balance between the preferences of investors' and borrowers' needs. In other words, in order to increase the flow of financial resources among ESCWA member countries, the financial institutions in the region must be capable of changing available financial resources into commercial long-term financial resources based on the competitive terms of the market.

2. In order for the ESCWA region's financial markets to operate efficiently and to enhance regional cooperation in mobilizing, managing and allocating financial resources, a number of conditions must be met. These include free-market economic systems in the member countries; sufficient absorptive capacity of the economies for available financial resources; satisfactorily-developed legal, administrative, institutional and financial frameworks and infrastructures; availability of sophisticated skills and communications systems; diversified and attractive financial instruments; and, trust-building monetary, financial and economic policies. These conditions would improve the functioning of the region's financial markets, which would in turn improve the functioning of available financial resources in economic development, notably in making assets more liquid and thus more easily negotiable.

3. Most sources of mid-and long-term finance in the ESCWA region are official. Governmental and semi-governmental organizations are the major bodies that determine the volume as well as the direction of finance whether this is made on a country or a regional basis. Consequently, mid-and long-term finance in the ESCWA region is carried on outside the region's financial markets. This finance is considered as off-market finance that is determined neither by the mechanisms nor by the motivations of regular financial markets. This, in fact, has largely reduced the effects of the supply of and demand for money on the terms of finance in the ESCWA region's financial markets.

4. Financial markets in the region have gained in importance during the last few years as major vehicles for regional cooperation in the mobilization, management and allocation of financial resources in the ESCWA region. Although governments as well as governmental institutions and public sector organizations still determine the pace of development of these markets and their role in the mobilization, management and allocation of financial resources in the region, the role of the private sector in this context has increased during the last few years. But it is still comparatively modest, owing mainly to the absence of market-making financial institutions for regional risk-taking. The role of financial institutions should be to assume the risk of marketing securities issued by business enterprises operating on a regional basis for the financing of regional economic programmes. The securities would then be made available to public and private funds and various organizations on a subscription basis.

5. With the establishment of such regional market-making financial institutions, financial intermediation by the ESCWA region's financial markets would change from the traditional liquidity-oriented investment and asset management to that of financial services orientation. The ability of these markets to establish a competitive market-making environment for financial assets portfolios would release substantial funds, currently held in liquid form or placed in the international financial markets, into the regional equity market. But much remains to be done before a workable regional market-making framework can be created. More specifically, the question of how the issues of securities on a country level can benefit from regional marketing and distribution by the market-makers must be answered. Another area of concern is the ability of the market-makers to enter the individual financial markets in the ESCWA region in search of interested individual investors. In other words, much of the day-to-day business of the market-maker may conflict with the present

legal, administrative and financial structure of the individual financial markets in the region. It is, therefore, vital that the concerned authorities of the ESCWA region's financial markets consider how to adjust the financial operations environment in their markets in order to accommodate the operations of regional market-makers, and how to make the local financial community accept the challenge of competition.

6. With financial markets in the ESCWA region springing from practical aspects and developments of the financial environment rather than from the abstract designs and programmes of governments of ESCWA member countries, regional cooperation in the mobilization, management and allocation of financial resources in the ESCWA region requires, first and foremost, the association of existing financial markets in the region at a reasonably feasible level, irrespective of the political contradictions that may exist or arise in the region.

7. Regional cooperation, therefore, means finding formulas that are practical and acceptable to market participants and actors. In simple economic terms, it is the suppliers and users of funds who will have to assess the practicability of the financial services which will be provided by an effective regional cooperation in the mobilization, management and allocation of financial resources in the ESCWA region, and consequently by the emergence of a regional financial market. It is only by providing efficient and competitive financial services that cooperation would be enhanced and a regional financial market would evolve.

8. This market would transcend political boundaries, physical locations and legal limitations. It would allow the unofficial participation and association of individual and institutional economic units. Consequently, it is not necessary to integrate the ESCWA region's financial markets legally or formally to enhance regional financial cooperation, since strengthening the legal and formal ties between these markets would not necessarily improve the quality of the financial services in these markets.

9. The outcome of formalized cooperative efforts in the financial sectors in the ESCWA region during the last few years has not been very successful. This is especially true in the financial (and economic) realm; on the other hand, strong ties have emerged between the business communities of individual ESCWA member counties. In this functional approach to the promotion of regional cooperation in the mobilization, management and allocation of financial resources in the ESCWA region, the strength and capabilities of the ESCWA region's investors and businessmen provide the impetus for development. Thus, focusing financial services on a regional level to respond to the financial requirements of these dynamic individuals would guarantee the need for and the development of regional cooperation and consequently the emerging of a regional financial market.

B. SUGGESTIONS FOR A PLAN OF ACTION

Based on the conclusions drawn in section A above, the following may be suggested as a plan of action to be considered by the concerned authorities of ESCWA member countries in their endeavour for regional cooperation in the mobilization, management and allocation of financial resources:

1. Create market-making financial institutions for regional risk-taking. This will establish a balance between demand and supply with respect to the types and maturities of available financial resources;

2. Establish close and formal relations among the ESCWA region's financial markets. This step however, must be preceded by the development of financial institutions and intermediaries capable of creating a balance between the preferences of investors' and borrowers' needs;

3. Undertake regionally harmonized actions in the legal, administrative, institutional and financial framework and infrastructure of the ESCWA region's financial markets;

4. Conduct trust-building monetary, financial and economic policies;

5. Find cooperative formulas that are practical and acceptable to the participants and actors in ESCWA region's financial markets.

6. Reduce government-to-government finance by channelling this finance through the ESCWA region's financial markets.

ANNEX TABLE. FOREIGN ASSETS OF ARAB OIL-EXPORTING COUNTRIES,* 1983-1996
(in billions of US dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996[a/]
United Kingdom (total)	42.8	39.8	44.2	43.2	46.4	47.3	44.2	35.3	33.2	34.5	35.2	33.4	35.8	35.6
Sterling bank deposits	3.6	3.5	4.4	4.6	5.2	4.1	3.5	2.5	1.4	2.5	1.8	2.2	2.3	2.1
Eurocurrency bank deposits	32.4	30.9	32.8	29.9	28.7	31.3	30.0	24.9	27.9	26.5	28.2	27.2	28.0	27.2
Government papers	2.5	1.7	2.1	3.0	4.1	3.8	2.8	2.6	1.6	0.9	1.3	0.3	1.3	2.8
Other assets [b/]	4.1	3.8	4.9	5.5	8.4	8.1	7.9	6.0	2.3	4.6	3.9	3.7	4.2	3.5
% of total assets	14.2	13.3	13.7	12.7	13.4	14.4	13.9	13.3	14.1	15.1	15.4	14.9	15.2	15.4
United States (total)	63.7	62.6	60.3	57.6	50.2	34.5	30.6	22.5	14.6	18.9	19.2	20.3	24.5	26.6
Bank deposits	13.1	15.9	16.4	16.9	15.7	11.2	11.1	5.3	2.4	3.9	4.1	4.5	4.5	5.2
Government papers	25.7	23.4	22.3	20.8	16.2	18.1	16.2	14.1	9.3	13.2	13.1	13.7	13.4	18.3
Other assets [b/]	24.9	23.3	21.6	19.9	18.1	5.2	3.3	3.1	2.9	1.8	2.0	2.1	6.6	3.1
% of total assets	21.1	21.0	18.7	16.9	14.4	10.5	9.6	8.5	6.2	8.2	8.4	9.0	10.4	11.4
Other developed Countries (total)	93.1	92.2	107.7	124.3	133.0	129.0	124.2	103.0	92.7	90.2	86.3	85.4	88.3	82.5
Domestic currency bank deposits	5.6	5.2	6.0	8.4	8.8	9.2	10.3	7.3	3.2	4.2	5.2	4.5	6.3	3.1
Eurocurrency bank deposits	35.2	35.8	38.8	34.4	35.0	36.8	31.3	24.2	19.2	15.2	18.3	19.3	12.2	13.3
Government papers	31.4	22.6	27.0	28.8	29.8	28.3	27.8	22.3	22.2	23.2	24.5	26.3	25.5	27.8
Other assets [b/]	20.9	28.7	35.8	52.9	59.3	54.7	54.5	49.2	48.1	47.6	38.3	35.3	44.3	38.3
% of total assets	30.8	30.7	33.4	36.6	38.3	39.3	39.1	38.9	39.5	39.4	37.7	38.1	37.4	35.6
IMF and World Bank	26.7	23.9	26.1	29.6	30.1	32.2	33.7	33.5	30.8	30.8	31.2	31.2	31.2	32.3
Credit to non-banks	5.7	6.3	8.4	9.1	9.4	10.2	12.2	5.1	2.2	3.2	3.5	3.4	4.2	4.5
Placement with developing countries	42.9	43.8	45.2	45.2	45.2	45.0	45.7	46.0	40.2	40.2	41.2	38.3	38.2	37.2
Bank deposits in offshore centres	27.0	31.4	29.9	31.0	32.9	30.0	27.3	19.2	12.1	11.2	12.2	12.3	13.4	12.8
Total identified assets	301.9	300.0	321.8	340.0	347.2	328.3	317.9	264.6	231.9	229.0	228.8	224.3	235.6	231.5

ANNEX TABLE. *(continued)*

Portfolio Structure	1983 Amount	1983 %	1984 Amount	1984 %	1985 Amount	1985 %	1986 Amount	1986 %	1987 Amount	1987 %	1988 Amount	1988 %	1989 Amount	1989 %
Bank deposits	22.3	7.4	24.6	8.2	26.8	8.3	29.9	8.8	29.7	8.6	24.5	7.5	24.9	7.8
Eurocurrency deposits	67.6	22.4	66.7	22.2	71.6	22.2	64.3	18.9	63.7	18.3	68.1	20.7	61.3	19.3
Government papers	59.6	19.7	47.7	15.9	51.4	16.0	52.6	15.4	50.1	14.4	50.2	15.3	46.8	14.7
Placements with developing countries	42.9	14.2	43.8	14.6	45.2	14.0	45.2	13.3	45.2	13.0	45.0	13.7	45.7	14.4
Other assets	49.9	16.5	55.8	18.6	62.3	19.4	78.3	23.0	85.8	24.7	68.0	20.7	66.0	20.8
Credit to non-banks	5.7	1.9	6.3	2.1	8.4	2.6	9.1	2.7	9.4	2.7	10.2	3.1	12.2	3.8
IMF and World Bank	26.7	8.8	23.9	8.0	26.1	8.1	29.6	8.7	30.1	8.7	32.3	9.8	33.7	10.6
Bank deposits in offshore centres	27.0	8.9	31.4	10.4	29.9	9.3	31.0	9.1	32.9	9.4	30.0	9.1	27.3	8.6
Total	301.9	100.0	300.0	100.0	321.8	100.0	340.0	100.0	347.2	100.0	328.3	100.0	317.9	100.0
Minus														
Official foreign reserves	41.6		36.5		41.1		34.7		38.3		35.2		30.3	
IMF and World Bank	26.7		23.9		26.1		29.6		30.1		32.3		33.7	
Placements with LDCs	42.9		43.9		45.2		45.2		45.2		45.0		45.7	
Total foreign investments	190.7		195.8		209.4		230.5		233.6		215.8		208.2	

Portfolio Structure	1990 Amount	1990 %	1991 Amount	1991 %	1992 Amount	1992 %	1993 Amount	1993 %	1994 Amount	1994 %	1995 Amount	1995 %	1996 Amount	1996 %
Bank deposits	15.1	5.7	7.0	3.0	10.6	4.6	11.1	4.9	11.2	5.0	13.1	5.6	10.4	4.4
Eurocurrency deposits	48.4	18.2	47.1	20.1	41.7	18.2	46.5	20.3	46.5	20.7	40.2	17.1	40.5	17.5
Government papers	39.0	14.7	33.1	14.1	37.3	16.3	38.9	17.0	40.3	18.0	40.2	17.1	48.9	21.1
Placements with developing countries	46.0	17.4	46.3	18.7	40.2	17.6	44.2	18.0	38.3	17.1	38.2	16.2	37.2	16.1
Other assets [b/]	58.3	22.0	53.3	22.7	54.0	23.6	44.2	19.3	41.1	18.3	55.1	23.4	44.9	19.4
Credit to non-banks	5.1	1.9	2.2	1.0	3.2	1.4	3.5	1.5	3.4	1.5	4.2	1.8	4.5	1.9
IMF and World Bank	33.5	12.7	33.8	14.4	30.8	13.4	31.2	13.6	31.2	13.9	31.2	13.2	32.3	14.0

ANNEX TABLE. (*continued*)

Portfolio Structure	1990 Amount	1990 %	1991 Amount	1991 %	1992 Amount	1992 %	1993 Amount	1993 %	1994 Amount	1994 %	1995 Amount	1995 %	1996 Amount	1996 %
Bank deposits in offshore centres	19.2	7.2	12.1	5.1	11.2	4.9	12.2	5.3	12.3	5.4	13.4	5.7	12.8	5.5
Total	264.6	100.0	234.9	100.0	229.0	100.0	228.8	100.0	224.3	100.0	235.6	100.0	231.5	100.0
Minus														
Official foreign reserves	16.1		12.2		14.3		15.4		19.3		27.8		42.9	
IMF and World Bank	33.5		33.8		30.8		31.2		31.2		31.2		32.3	
Placements with LDCs	46.0		46.3		40.2		41.2		38.3		38.2		37.2	
Total foreign investments	169.0		142.6		143.7		141.0		135.5		138.4		119.1	

Source: ESCWA calculation based on Quarterly Reports of Bank of England; various publications of Bank for International Settlements, Organization for Economic Cooperation and Development, Morgan Guaranty Trust Company, and others.

* GCC-countries, Libya and Algeria, excluding Iraq for lack of data.

a/ Estimates

b/ Including equities, properties and other assets.