

EASTERN CARIBBEAN STATES CAPITAL MARKETS DEVELOPMENT PROGRAM

(TC-94-04-08-9-RG)

EXECUTIVE SUMMARY

**EXECUTING AGENCY:** Eastern Caribbean Central Bank (ECCB)

**BENEFICIARIES:** Member countries of the Organization of Eastern Caribbean States (OECS)

**OBJECTIVES:** The overall objective of the program is to promote the private sector-led development of the economies of member countries of the OECS, through the development and expansion of market-based economic systems. Its specific objective is to establish the appropriate institutions and facilities, including the drafting and enactment of the necessary legislation, to facilitate this process.

**DESCRIPTION:** The program consists of the following two sub-programs: Subprogram I: Establishment of an Over-the-Counter Electronic Stock Exchange which envisages: (i) preparation of the enabling legislation to allow the Exchange to become operational throughout the OECS; (ii) development of the rules and regulations for the operation of the Exchange in terms of trading, clearing, settlement and depositor functions; (iii) development of electronic formats to make company-based financial information available throughout the islands and the development of a stock registration system; and (iv) design and implementation of an investor/issuer awareness program. Subprogram II: Expansion of productive sector activity and enhancement of export competitiveness which would focus on the development and implementation of a plan of action to increase the flow of credit to the productive sectors.

**FINANCING:**

Modality:	Grant
Beneficiary:	US\$ 766,000
MIF:	US\$1,223,000
Total:	US\$1,989,000

**IMPLEMENTATION SCHEDULE:**

Execution period:	24 months
Disbursement period:	30 months

**ENVIRONMENTAL  
CLASSIFICATION:**

The Environmental Management Committee, at its meeting of July 30, 1996, classified this as a Category II operation.

**RISKS:**

The major risk to the program relates to macroeconomic uncertainty in the sub-region, which may affect production, income and savings, and investment behavior and may also adversely affect the degree and effectiveness of participation by institutions and the general public in money and capital market activities, thereby resulting in a slower rate of system development than might otherwise be achievable.

On the positive side, the level of economic management in the OECS in recent years has been good and is improving. The major difficulties faced by the islands have been external in nature, reflecting either natural disasters or changes in trading regimes of its main overseas trading partners. Hence, one of the aims of the program is to improve the capacity of the sub-region to generate and utilize its own resources. Moreover, the many institutional initiatives launched within the OECS community since its creation in 1981 are evidence of a strong political will to facilitate the process of regional integration.

**CONSISTENCY WITH  
THE BANK'S  
REGIONAL STRATEGY:**

The proposed program is fully consistent with the Bank's regional strategy. The priority areas of that strategy are: (i) support of policy harmonization activities in the CARICOM region to enhance trade opportunities, transportation, investment and export relations, through the review and rationalization not only of policy operations and strategies, but also of the corresponding regulatory, legal, fiscal and administrative frameworks; and (ii) promotion of greater sector participation in economic development.

In its programming, the Bank has been supportive of a number of regional integration initiatives, both within the OECS sub-region and in the wider CARICOM region as well. Indeed the program proposed in this document is partially the result of a technical cooperation financed by the Bank with co-financing from the Caribbean Development Bank (CDB) and USAID, under which a series of diagnostic studies were undertaken to identify obstacles and impediments to private sector investment and private business activity in the member countries of the OECS. In addition, Bank and MIF resources have been provided for technical assistance programs to support the development of a CARICOM Single Market and the

harmonization of capital markets, this latter involving the modernization and integration of stock exchanges in The Bahamas, Trinidad & Tobago, Jamaica, Barbados and the Dominican Republic.

**SPECIAL ASPECTS:** The CDB, in accordance with the terms of an agreement signed with the Bank in February 1995, is responsible for the administration of the program and, in agreement with the Bank, has decided to appoint the ECCB as the executing agency. A Steering Committee comprised of representatives from the CDB, ECCB, and the Economic Affairs Secretariat (EAS) of the OECS will monitor project execution and provide technical oversight. Formal meetings of the Steering Committee will be held at least once per calendar quarter or with the frequency that circumstances demand.

**SPECIAL CONDITIONS:** Conditions prior to first disbursement: prior to the first disbursement of the resources of the grant, the ECCB, through the CDB, will present for approval of the Bank: (i) the terms of reference of the consultants to be hired (paragraph 2.25); and (ii) the name, qualifications and experience of the candidate to occupy the post of project manager (paragraph 2.29). Other special conditions: prior to the disbursement of resources allocated for the acquisition of information technology, the ECCB, through the CDB, will present evidence of the signature of the agreement between the eight member governments of the ECCB and designated public companies that meet minimum listing requirements (paragraph 2.12).

## I. COUNTRY ELIGIBILITY

- 1.1 The countries of the Organization of Eastern Caribbean States (OECS) <sup>1/</sup> were declared eligible for all modalities of financing from the Multilateral Investment Fund (MIF) by the Donors' Committee at its meeting of June 24, 1994.

## II. PROJECT OBJECTIVES AND DESCRIPTION

### A. The project

#### 1. The sub-regional context

- 2.1 Unifying OECS goods and factor markets is a critical and essential step in creating a market of sufficient size for the emergence of indigenous, internationally competitive firms; for broadening the range of viable activities for OECS firms; for attracting non-enclave direct foreign investment in the sub-region; and for improving internal access to financial resources and scarce labour skills. Broadening the market area is also critical for the development of money and capital markets, given the small size of the individual units which currently range from a population of 140,000 in St. Lucia to 10,000 in Anguilla for a total population of about 550,000.
- 2.2 The Treaty of Basseterre establishing the OECS contemplates the unification of the markets of the member countries of the group. Work is currently underway, led by the East Caribbean Central Bank (ECCB), on developing the legal framework, capital markets institutions, procedures and associated arrangements that will aid the process of developing money and capital markets in the sub-region. The main purpose behind this process is to contribute to and enhance the economic and social development of the Region, through the expansion of production, made possible by increased savings and investment levels. The intention is to broaden the range of instruments and opportunities available to savers, investors and borrowers in order to match preferences and requirements with options and opportunities, and to permit and facilitate maturity transformations, in order to encourage and promote the use of market institutions in the financial intermediation processes.

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<sup>1/</sup> Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines. The British Virgin Islands is a member of the OECS; however, since it is not a part of the ECCB common currency arrangement, it is not included in the money and capital markets development portion of this project.

- 2.3 Additionally, the prospect of continued decline in concessional and bilateral assistance flows to the Caribbean Community (CARICOM) region generally, including the OECS, as a result of changes in the global economic environment, is forcing greater reliance on domestic resources. While the OECS sub-region already constitutes a single currency area, thus permitting some measure of capital movement between the islands, the obstacles to the movement of the other factors of production, as well as the operation of laws and practices arising from the focus on each individual territory as an individual state, have operated to limit capital mobility in the past and could frustrate the broadening and deepening of money and capital markets.
- 2.4 A considerable amount of work has been done in an attempt to identify and address the issues most relevant to the task at hand. Under a technical cooperation program (ATN/SF-4097-RE), jointly sponsored by the Caribbean Development Bank (CDB), the United States Agency for International Development (USAID) and the Inter-American Development Bank (IDB), a series of country diagnostic studies were undertaken to identify obstacles and impediments to private sector investment and private business activity. In addition, the World Bank, CDB, the Economic Affairs Secretariat of the OECS (EAS) and ECCB collaborated in the preparation of a report for the June, 1994 Caribbean Group for Collaboration in Economic Development's (CGCED's) Washington meeting, which reviewed the performance of any prospects for the sub-region and provided an agenda to assist policy-making for the economic transformation of the Region. In more specific terms, the EAS and the ECCB have prepared a detailed Economic Development Strategy for the OECS, which has been accepted by the OECS Governments, and is now in the process of being operationalised.

## 2. The regional context

- 2.5 Neither the needs, in terms of policy reform, nor the measures proposed or already in place to satisfy these needs in the Eastern Caribbean countries, are dissimilar to those identified in the larger CARICOM grouping to which the OECS sub-grouping belongs. Indeed, in CARICOM, there is renewed effort directed towards the coordination of macroeconomic policy within a CARICOM single market and towards harmonization of policy instruments and administrative arrangements, in order to support private investment, trade liberalization and freer flow of the factors of production. In addition, the CARICOM Heads of Government are now engaged in an examination of the requirements for monetary integration and, through the central banks in the Region, have begun the process for making currencies freely convertible.
- 2.6 In support of these efforts, IDB has approved a technical cooperation program (ATN/SF-4705-RG) to assist in the financing of:
- a. the development and implementation of an information network;

- b. strengthening the capacity of the CARICOM Secretariat to manage macroeconomic and trade data;
  - c. the development of regional action plans for private sector investment;
  - d. development of action plans to promote the mobility of skilled labour;
  - e. studies for expansion of financial instruments; and
  - f. dissemination of the studies mentioned above.
- 2.7 In a similar vein, the recently approved MIF operation (ATN/MT-4690-RG) for the harmonization of capital markets in the Caribbean (involving the Stock Exchanges in The Bahamas, Barbados, the Dominican Republic, Jamaica and Trinidad and Tobago) provides for the design and preparation of a diagnostic of the requirements for the regional integration of stock exchanges. This diagnostic will examine the legal, regulatory, institutional and economic implications of regional integration of stock exchanges for national policies and will be followed by an action plan to implement central securities depository systems, automated trading arrangements and appropriate system for self-regulation. A current Organization of American States (OAS) financed project, commissioned by the CARICOM Secretariat, is assessing the requirements for harmonization of capital markets in all the Caribbean Basin countries.

B. The beneficiary

- 2.8 The OECS, which, as mentioned before, is comprised of nine member states, was created in 1981. It maintains a General Secretariat in St. Lucia, headed by a Director-General, as well as the EAS located in Antigua and Barbuda. The formation of collective programmes and projects is one of the responsibilities of the EAS. This is accomplished through extensive dialogue between member states on their strategic objectives in the areas of trade, employment, sustained economic expansion, sector development, human resource development, the management of the public sector and environmental conservation, as well as through ongoing cooperation in specific areas of functional cooperation.
- 2.9 In June 1991, the OECS agreed to establish a Single Market, allowing for the free movement of people, capital, goods and services, in order to take advantage of scale economies, administrative cost efficiencies, availability of a larger reservoir of skilled personnel and enhancement of opportunities for joint venture arrangements. In addition to the existing monetary union in which eight of the nine countries participate, the OECS Governments have, in recent years, launched several institutional initiatives to facilitate joint programming and greater regional integration. These include the ECCB, under which the OECS are

grouped into a single currency arrangement, the Eastern Caribbean States Export Development Agency (ECSEDA), the Eastern Caribbean Investment Promotion Service (ECIPS), the OECS Natural Resources Management Unit (NRMU), the Agricultural Diversification and Coordination Unit (ACDU) and the OECS Tourism Unit. Economic policy coordination is assisted by the Economic Policy Review Committee (EPRC) and overall economic strategic and tactical management is being brought together through the operationalising of the OECS Economic Development Strategy and through reviews of the sub-region's economic performance at regular Board and Monetary Council Meetings of the ECCB. ECCB also coordinates external debt service payments for countries in the organization.

C. Objectives

- 2.10 The general objective of the program is to promote the private sector-led development of the economies of the member countries of the OECS, through the development and expansion of market-based economic systems. Its specific objective is to develop and expand market-based economic activity through the establishment of the appropriate institutions and facilities, and the drafting and enactment of the necessary legislation, as appropriate. In the pursuit of these objectives, care would be taken to ensure complementarity of actions with those of the wider CARICOM as a unit.
- 2.11 The program, which would be executed over a period of 24 months, would address some of the problems identified in the studies to which reference was made in paragraph 2.4. It would be comprised of the following components:
  - a. the establishment of an Over-the-Counter (OTC) Electronic Stock Exchange; and
  - b. the expansion of productive sector activities and enhancement of export competitiveness.

D. Description

1. Establishment of an OTC Electronic Stock Exchange

- 2.12 This component will consist of the following sub-components:
  - a. review of the draft and preparation of the final version of an internationally binding agreement between the eight member governments of the ECCB and designated public companies that meet minimum listing requirements. This agreement will be used as a temporary mechanism to allow the Over-the-Counter Exchange to function in all the member countries of the ECCB while required changes are being made in Companies and Securities legislation in these countries, in order to allow for the eventual establishment of a more formal stock exchange. The

signature of the agreement will be a condition prior to the disbursement of the resources of the grant allocated to the purchase of information technology;

- b. development of rules and regulations for the operation of a regional electronic stock exchange in terms of trading, clearing, settlement, and depositor functions; software to automate these procedures will be part of this effort;
- c. development of electronic formats to make company-based financial information available throughout the member countries of the OECS; and assistance to the ECCB in the development of a stock registration system to support the regional stock exchange; and
- d. assistance in the design of an investor/issuer public awareness program to make investors and potential stock issuers knowledgeable about the benefits of equity ownership and the operation of a regional stock exchange.

2.13 The consultants will carry out the following specific activities:

- a. review the draft of the OECS Over-the-Counter Electronic Stock Exchange Proposal, as well as the draft Agreement (see below). The proposal is comprehensive in that it includes assistance in trading software for the stock exchange, internal trading rules and regulations, rules governing the establishment of a central securities depository (CSD) for clearing settlement, and custodial functions. The listing companies or their commercial banks will also require assistance in creation of a shareholder registration system. This technical assistance (TA) will also have to be provided to the ECCB, which will maintain a duplicate shareholder registry. The consultants should also prepare the technical details for the creation of summary company data to be transmitted electronically. All items in this proposal will be developed according to Group of Thirty (G-30) standards, where applicable;
- b. prepare a final document of the OECS Over-the-Counter Electronic Stock Exchange Agreement. This Agreement is intended to be an interim solution while a draft national securities law can be prepared and adopted by each of the Sovereign States within the OECS. This Agreement will provide the legal basis for the Exchange and its associated functions of clearing, settlement and custody. The issues of multi-lateral netting and novation are especially important in the context of this project and will have to be addressed as well as a mechanism for dispute settlement. The Agreement will be signed by the eight member Governments of the currency union and the ECCB and may include binding sub-agreements with the Development Finance Institutions (DFIs), Approved Finance



Institutions (AFIs) and companies that wish to list on the exchange;

- c. review and implement the ECCB's program to incorporate an electronic database of historical and current company information and trading activity. The company database is not meant to be exhaustive, but only to provide summary details to assist the investor in securities selection. The consultants must also design shareholder registry systems in an electronic format and train companies and their commercial banks in their use;
- d. provide TA in the establishment and operationalisation of the Exchange in terms of trading software and post-trade software for clearing, settlement and custodial services (see below). This will include the specification and procurement of computer hardware and software, telecommunications links, the design of forms and related documentation and agreements and the installation of the systems and procedures both at the eight remote trading locations and at ECCB Headquarters. Training in the use of these trading, clearance, settlement and custodial systems must also be provided;
- e. develop and implement an education, training, awareness and marketing program to promote the Exchange and to:
  - (i) facilitate the participation and develop the technical capacity of various market players (DFIs, AFIs, commercial banks and listed companies) in the operation and activities of the Stock Exchange; and (ii) enhance financial literacy and the availability of information generally, to which ends the consultants will:
    - (i) review the Education Program Strategy with a view to refining the program and developing a phased implementation plan;
    - (ii) provide technical assistance for the implementation of aspect(s) or phase(s) of the program that can be accommodated by this project;
    - (iii) identify training needs and develop a training program for key market players such as public sector officials, financial intermediaries, public companies, National Steering Committees and the investing public; and
    - (iv) design and implement a general promotional and awareness campaign for the development of Money and Capital Markets in general and for specific initiatives.
- f. develop arrangements for self-regulation and for sub-regional clearing and settlements in respect of market trading in the OECS. In this respect, the consultants will review the

prospects for and undertake initiatives for the participation of the OECS in the CARICOM project with IDB/MIF support in the harmonization of Capital markets in the Region with the aim of establishing appropriate regional standards for trading, automated clearing and settlement systems, and for the self-regulation of the exchanges involving the following:

- (i) the design and implementation of an appropriate plan for the development of a single Central Securities Depository (CSD) for the eight OECS/ECCB members as a pilot project for further integration of the wider Caribbean Capital Markets in the future;
- (ii) the design and implementation of an appropriate self-regulatory framework; and
- (iii) the acquisition of hardware and software for the CSD.

g. Develop enabling legislation for the OECS:

- (i) identify, outline and make recommendations on the relevant policy issues for consideration by the ECCB Monetary Council for the development of comprehensive uniform Securities Legislation in the context of development Money and Capital Markets and a Single Market in the OECS sub-region;
- (ii) develop terms of reference (TOR) for the drafting of comprehensive uniform Securities Legislation based on the policy issues outline and the decisions taken by the Monetary Council;
- (iii) draft comprehensive uniform Securities Legislation for the OECS based on the TOR. It should be noted that the consultants who will draft this legislation will not be the same consultants responsible for the preparation of the TOR referred to in (ii) above.

2. Expansion of productive sector activities and enhancement of export competitiveness

- 2.14 As indicated earlier, the overall development strategy for the OECS recognizes the critical role of production and trade in the growth and development process and arrangements have been and are being put in place to encourage, support and expand output, domestic commerce and export earnings. While tourism sector expansion has been contributing substantially to growth in incomes and employment in the recent past, an appreciation derived from the region's economic history of the dangers of production concentration and dependence on a dominant industry has contributed to significant effort to diversify output.

- 2.15 Initial investigations suggest that the flow of credit from financial institutions to the productive sector is impeded by legal and regulatory deficiencies, by institutional practices and by other factors. The specific objective of this component is to determine what are these impediments to the flow of credit to good risks in the productive sectors, and if so, to describe these impediments and propose an action plan to reduce them. The initial investigations have revealed that the following areas should be investigated:

a. Secured transactions

- 2.16 Because of the high leverage permitted even in well-regulated financial systems, most credit from financial institutions to the productive sector is supported by guarantees. If the legal and institutional framework for establishing ownership of fixed and moveable property, for pledging this property to support a financial transaction, and for executing guarantees, does not function well, then the flow of credit to the productive sector is substantially diminished. This part of the exercise will examine the way secured transactions work in practice in the OECS countries, analyze the regulatory foundation for these transactions, and look at the registry office or offices where guarantees are registered. Based on these examinations, a plan of action to correct the legal and institutional deficiencies that are found to exist will be prepared.

b. The production credit guarantee scheme

- 2.17 The OECS has a production credit guarantee scheme that provides guarantees to entities in the productive sector but only in respect of the production of goods for export outside of the subregion. The operation of this program will be examined to determine if it is operating on a sustainable basis, and if not, what problems prevent it from operating sustainably. Consideration will be given to expanding its operations to include the financing of goods that are not exported outside the subregion. Finally, the financing of export shipments will also be examined to determine if good credit risks are able to obtain export financing on reasonable terms. If not, consideration will be given to creating a program within the production credit guarantee scheme to include providing insurance for the financing of export shipments. An action plan for the strengthening of this scheme will be produced. If the expansion of its activities to include the financing of production of non-export goods or to include export shipment financial insurance is recommended, then the steps to implement these recommendations will be included in the action plan.

c. Other factors

- 2.18 Other aspects that affect the flow of credit to businesses and agricultural production will be considered. The purpose of this analysis will be to determine if there are other legal or

institutional impediments to the flow of credit to companies that are good, bankable risks. Work already done in this area will be reviewed, the opinions of the business community will be taken into consideration, and the operations of private sector and public sector financial institutions will be examined to determine whether good risks are able to access credit on reasonable terms. Factors to be considered are whether the banking system has restrictions to entry or other restrictions that artificially limit the amount of banking capital; whether prudential regulation is adequate to encourage savings to flow to the banks; and whether the staff in financial institutions have the skills and training to perform credit analysis.

- 2.19 The results obtained from these investigations will be incorporated into a report describing the impediments to the flow of credit and setting out a series of action plans to eliminate the most serious problems.

E. Cost and financing

- 2.20 The estimated cost of the proposed program is US\$1,989, distributed as follows:

**SUMMARY OF COSTS AND FINANCING \***  
(US\$'000)

Items	MIF	ECCB	Total
<b>I. OECS Electronic Stock Exchange</b>	<b>1,080</b>	<b>692</b>	<b>1,772</b>
Professional fees including overheads	397	74	471
International and local travel	89	10	99
External training	50	-	50
Per diem and other allowances	203	23	226
Education and awareness program	93	585	678
Information technology	248	-	248
<b>II. Export Credit Insurance and Production Credits</b>	<b>82</b>	<b>74</b>	<b>156</b>
Professional fees including overheads	40	28	68
International and Local Travel	6	6	12
Per diem and other allowances	36	40	76
<b>Total: Program I and II</b>	<b>1,162</b>	<b>766</b>	<b>1,928</b>
Project Supervision and Administration (CDB 5%)	61	-	61
<b>Grand Total</b>	<b>1,223</b>	<b>766</b>	<b>1,989</b>

\* All figures rounded.

- 2.21 In addition, there would be an additional cost element of 5% of the MIF contribution to cover CDB's administrative costs for organizing and supervising the project. This amount totals approximately US\$61,000 and would bring the total funding requested from the MIF to US\$1,223,000.

F. Organization and execution

- 2.22 On February 16, 1995, CDB signed a Memorandum of Understanding with IDB under which it was agreed that the two institutions would cooperate with each other with a view to channelling the resources that the MIF may make available to CDB for projects in developing member countries of CDB which are members of the OECS, and for regional projects which include financing in IDB member countries which are also members of CDB.
- 2.23 In accordance with the Memorandum of Understanding, the CDB would be responsible for administration of the project. However, the CDB, in agreement with the IDB, has decided that it would appoint the ECCB as the executing agency. A Steering Committee comprising representatives from CDB, ECCB, and the EAS will monitor project execution, provide technical oversight, and advise the ECCB as required. Formal meetings of the Steering Committee will be held not less frequently than one per calendar quarter. For its part the IDB will monitor those aspects of the program related to harmonization with other exchanges being developed with MIF support in the wider CARICOM and Central American regions. The IDB will also monitor the implementation of activities related to the expansion of productive sector activities and enhancement of export competitiveness. In keeping with established practice, the CDB would be the financial agent with responsibility for ensuring that the resources of the grant are utilized for the purposes indicated in the document.
- 2.24 It is expected that the CDB will sign an agreement with the ECCB for execution of the project within three (3) months of approval of the Project Memorandum by the Donor's Committee.
- 2.25 MIF resources would be used to hire a team of consultants to do the work and to manage the work program. 2/ The specific consulting skills required will be:
- a. a project manager familiar with the establishment of stock exchanges and their rules and regulations;
  - b. a securities lawyer familiar with national securities legislation, company law and securities exchange rules and regulations;
  - c. an expert in trading, clearing, settlement and depository systems and the associated internal exchange rules and regulations;

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2/ Bank approval of the terms of reference of the consultants shall be a condition prior to first disbursement.

- d. a specialist in securities trading systems, computer-based company information and hardware and software systems for securities exchanges;
- e. an expert in public relations and training in the use of securities markets; and
- f. an expert in production credit with banking experience in small developing countries.

2.26 The consultants will report directly to the ECCB. In the performance of their duties with respect to the establishment of the Electronic Stock Exchange, they will hold consultations with the National Steering Committees on Money and Capital Market Development in each territory. One representative from each territory will be appointed by the Ministers of Finance (Members of the ECCB Monetary Council). The Committee will be chaired by the respective Financial Secretaries (Directors of Finance).

G. Procurement

2.27 With respect to the acquisition of goods and services, the procedures of the CDB would be utilized. However, in accordance with the agreement establishing the MIF, only nationals or companies from Donors, or regional developing countries which are members of the Bank, shall be eligible for procurement with resources of the proposed grant, except that developing member countries of the CDB shall also be eligible for procurement from the grant.

H. Validity and risks

2.28 The major risks to the project involve macroeconomic instability in the Region, which may affect production, income and savings and investment behavior; and inadequacies in project design and management, which would adversely affect the degree and effectiveness of participation by institutions and the general public in money and capital market activities and result in a slower rate of system development than might otherwise be achievable. The level of economic management in the OECS in recent years has generally been good and is improving; the major difficulties faced by the islands have been external in nature, reflecting either natural disasters or poor economic performance, or changes in the trading regimes in the main overseas trading partners. One of the aims of the project is the improvement of the capacity of the sub-region to generate and utilize its own resources.

2.29 Given its critical importance for the success of the project, considerable attention is being paid to project design and management. The project is part of an ongoing initiative of the ECCB under its mandate to promote the sustained economic development of its member countries, and is consistent with CDB's

Charter responsibility to encourage the development of capital markets and to pay particular attention to promoting the advancement of the less developed countries in the Region. ECCB will designate an individual acceptable to CDB and IDB to be task manager for the project and that individual shall be responsible, in consultation with CDB, for the implementation of the project. 3/ Overall project design will reflect the ongoing ECCB initiatives and shall be agreed by the Steering Committee before the commencement of the project. Detailed design elements and implementation will be the responsibility of the consultants, under the supervision of the task manager in accordance with guidance from the Steering Committee. The task manager and the consultants will be required to liaise closely with the National Steering Committees and the prospective key market players in the individual countries, in order to ensure that the different views, operating practices and business cultures are taken account of during the design and implementation of the different aspects of the project.

### III. COMPLIANCE WITH PROJECT ELIGIBILITY CRITERIA

#### A. General criteria for project eligibility

- 3.1 The ECCB/OECS Electronic Stock Exchange project, as well as the wider sub-program for the development of institutions in the OECS and the single market, and the overall thrust to promote private sector-led development in the OECS (incorporating improved credit arrangements for the private sector, public sector reform and a restructured and improved approach to environmental management and conservation) are fully consistent with the general purpose of the MIF, which is to increase private investment and expand the private sector, thereby accelerating economic and social growth and development.

#### B. Facility criteria for project eligibility

- 3.2 The proposed project and the broad program are also fully consistent with the criteria for grant financing under the Technical Cooperation Facility, Article 3, Section 2 of the MIF Agreement which establishes, among other criteria, that grants shall be provided to Governments to finance advisory services required to implement plans which are part of a comprehensive reform program aimed at improving the environment for investment.

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3/ The selection of the candidate to fill the post of Project Manager shall be a condition prior to first disbursement.

#### IV. CONSISTENCY WITH THE BANK'S REGIONAL PROGRAM

- 4.1 The proposed project and the broad program are fully consistent with IDB's regional strategy. The priority areas of that strategy as embodied in the Caribbean Regional programming Paper of May, 1992 are:
- a. support of policy harmonization activities of the CARICOM region to enhance trade opportunities, transportation, investment and export relations, through the review and rationalization not only of policy Options and strategies, but also of the corresponding regulatory, legal, fiscal and administrative frameworks; and
  - b. promotion of greater sector participation in economic development.
- 4.2 It is relevant to note that in the implementation of its country strategies in the CARICOM countries, the Bank, through its investment Sector loans in Barbados, Jamaica and Trinidad and Tobago has already advanced the attainment of some of the objectives cited in the preceding paragraph. Similar initiatives are being considered for Guyana and The Bahamas. Overall, therefore, the complementarity of these actions with those being proposed in this operation is expected to redound to the benefit not only of the OECS countries but to the wider CARICOM region as well.

#### V. AVAILABILITY OF MIF RESOURCES

- 5.1 The program is expected to be financed through a grant. The countries of the OECS were declared eligible for all modalities of financing under the MIF by the Donors Committee on June 24, 1994.



PROJECT SUMMARY MATRIX	
<b>Project General Objective</b>  To promote the private sector-led development of the economies of the member states of the OECS.	
<b>Project Specific Objectives</b>  To support:	<b>Expected Achievements</b>
(i) the establishment of an Eastern Caribbean Over-the-Counter Electronic Stock Exchange for Equities; and	Call exchange operational within 18 months.
(ii) the development of an action plan to increase the flow of credit to the productive sectors.	Action plan prepared within 12 months

Sub-Programs	Activities to be Executed in Each Sub-Program	Expected Achievements
I. Establishment of an Over-the-Counter Electronic Stock Exchange for Equities	Review of all aspects of the draft proposal for establishment of the Exchange including: trading software; internal trading rules and regulations; rules governing the establishment of a CSD for clearing, settlement and custodial functions; and creation of a shareholder registration system. Develop a detailed implementation plan.	Proposal readied according to G-30 standards within 3 months
	Prepare the final version of the Exchange Agreement which would provide the legal basis for the Exchange and its associated functions of clearing settlement and custody.	Agreement completed and adopted by the OECS within 9 months
	Review and implement the ECCB's program to incorporate an electronic database of historical and current company information and trading activity.	Program implemented within 12 months
	Provide TA in the operationalisation of the Exchange with respect to trading software and post-trade software for clearing, settlement and custodial services. This will include the specification and acquisition of computer hardware and software, telecommunications links, the design of formal and related documentation and agreements, and the installation of the systems and procedures both at the eight trading locations and at ECCB's Headquarters.	Full system computerization within 12 months
	Develop and implement an education, training, awareness and marketing program to promote the Exchange and facilitate participation in its operations.	Program developed and in implementation within 18 months
	Make arrangements for at least one market point of contact in each participating country for the secondary trading of securities and disseminating of information to promote trading.	Market points of contact in place within 12 months
	Develop standards for a self-regulatory and regional clearing and settlement system for the OECS including: <ul style="list-style-type: none"> <li>(i) the design and implementation of an appropriate plan for the development of a single CSD for the member countries of OECS/ECCB as a pilot project for the further integration of the wider Caribbean capital markets in the future;</li> <li>(ii) the design and implementation of an appropriate self-regulatory framework; and</li> <li>(iii) the acquisition of hardware and software for CSD</li> </ul>	CSD operational within 12 months

PROJECT SUMMARY MATRIX		
	<p>Develop draft comprehensive Uniform Securities Legislation including the following activities:</p> <p>(i) identify, outline and make recommendations on relevant policy issues for consideration by the ECCB Monetary Council;</p> <p>(ii) develop TORs for the drafting of the legislation; and</p> <p>(iii) prepare draft legislation based on the TOR.</p>	Uniform Securities Legislation completed within 6 months
II. Expansion of productive sector activities and enhancement of export competitiveness	(i) prepare an assessment of the way secured transactions work in practice in OECS countries including an analysis of the regulatory and institutional basis for these transactions and make pertinent recommendations.	Report presented within 3 months
	(ii) conduct a study of the operation of the existing production credit guarantee scheme, to include an assessment of the extent to which existing and potential producers would benefit from an expansion and restructuring of the existing scheme; make pertinent recommendations	Report presented within 3 months
	(iii) prepare action plan for implementation of recommendations arising from (i) and (ii) above.	Action plan presented within 9 months

PROPOSED RESOLUTION

REGIONAL. NON-REIMBURSABLE TECHNICAL COOPERATION FOR AN  
EASTERN CARIBBEAN STATES CAPITAL MARKETS DEVELOPMENT PROGRAM

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Caribbean Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary and to adopt such other measures as may be pertinent for the execution of a Capital Markets Development Program in the Eastern Caribbean States, as described in Document MIF/AT-\_\_\_\_\_ with respect to a technical cooperation for the Eastern Caribbean Central Bank (ECCB) under the supervision and administration of the Caribbean Development Bank (CDB).

2. That up to the sum of US\$1,223,000 is authorized for the purposes of this resolution, chargeable to the Technical Cooperation Facility of the Multilateral Investment Fund.

3. That the above mentioned sum is to be provided on a non-reimbursable basis.