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Development of Money and Capital Markets

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**with comments by
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Abstract

This paper reviews the prerequisites necessary for accelerating the development of money and capital markets in the context of developing economies of Europe, Middle East and North Africa. These countries feature a strong predominance of the banking sector that is mirrored by underdevelopment of money and capital markets. Such a situation restrains efficient mobilization and allocation of financial resources and in particular thwarts the supply of long term finance and equity. The author is Senior Financial Economist of the Economic Development Institute of the World Bank. Mr. Michael Warman carried out background research for this paper and contributed with a series of notes. The author is grateful for comments from and the assistance of Mr. A. W. Van Agtmael, Deputy Director of Capital Markets Department of the International Finance Corporation.

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Executive Summary

Money and capital markets are important for the efficiency and the solvency of the financial system. They enhance competition, lower intermediation costs, and provide borrowers and lenders with an alternative to debt financing from the banking sector. Excessive reliance on debt renders economies and enterprises vulnerable to external and internal shocks and contributes to financial instability.

The level of development of money and capital markets is an important determinant of the flexibility and pace with which the financial system can adjust to internal and external changes and absorb shocks. The simple reason is that money and capital markets represent the deep end of the financial system, and the deeper the system, the greater its stability and resilience. The process of structural and financial adjustment undertaken to different degrees by most countries in Europe, the Middle East, and North Africa, (EMENA) region highlights and enhances the need to develop money and capitals markets. It is of little surprise, therefore, that several participants at the roundtable raised the issue of ways and means of developing money and capital markets or, conversely, of the critical path that development of money and capital markets would follow, and that they view this issue as a priority topic for the agenda.

Of course, there is no ready made recipe for developing money and capital markets. Their development has been fostered or accelerated by unique combinations of circumstances related to macroeconomic and sectoral developments and supported by the right policy mixes, appropriate legal, regulatory, and supervisory frameworks, and luck. But, if a well-tried formula does not exist as such, countries with successful development paths of money and capital markets demonstrate several common features. This paper attempts to identify and group these features against the background of the EMENA countries. Because of the diversity of these countries in terms of development levels, macroeconomic and financial policies, laws, regulations, and supervision procedures, the paper treats the topic in a general way, but it may be useful to highlight and discuss several of the formulas that succeeded elsewhere so as to provide food for further thinking about policy design and implementation.

First, some macroeconomic environments are more conducive to the development of money and capital markets than others. The "right" ones are those combining political and macroeconomic stability with fiscal and external accounts in reasonable balance. These features usually lead to a positive business climate, which is an important determinant of investors' confidence. The less this environment is present, the greater the tendency of institutions and investors to deal at the shorter end of the markets, because of its ability to hedge against inflation. As countries return to greater economic and price stability, if the legal, institutional, and supervisory ingredients are right, one should observe a spontaneous lengthening in the maturity of assets demanded by the public and an expansion in related trading. This context should in turn lead to the diversification of institutions and instruments.

Second, some sectoral policy mixes are more propitious than others. These mixes usually comprise interest rates that are predominantly market determined, together with basically unregulated credit distribution and little financial market fragmentation. Such mixes allow money and capital markets instruments to compete with credit instruments and find areas of comparative advantage in financial systems to the direct benefit of lenders, borrowers, investors, and entrepreneurs.

In the fiscal field, an important ingredient is tax neutrality with regard to yields and proceeds from various instruments. This neutrality, again, allows instruments and institutions to develop toward areas of the market where their comparative advantage is the strongest, unbiased by fiscal distortions. Some countries use positive fiscal incentives of a temporary or permanent nature to sustain faster development of money and capital markets.

Appropriate regulation and appropriate supervision are the last two ingredients. They are delicate matters that have to strike a balance between prudential regulation and supervision, protection of the investor, and some kind of developmental thrust. Information disclosure on behalf of the listed companies and candidates for listing is a particularly difficult matter to get right. In the legal, regulatory, and supervisory areas, the most evident features supportive of the development of money and capital markets are cohesiveness, transparency, stability, and flexibility. Important assets in this last category are technical skills in trading, market analysis, credit rating, and the likes. The following paragraphs set out a topology of the objectives and implementation procedures for the development of financial systems, as the established by the Capital Markets Development Department of the International Finance Corporation.

Objective of Financial System Development

The ultimate objective of strengthening a country's financial system is to make possible an increase in, and more efficient utilization of, financial resources in the development process as a means of speeding real economic growth.

The specific objectives of financial development are the following:

- to increase domestic savings;
- to improve the efficiency of the allocation of savings to investment in the public and private sectors;
- to broaden the base of ownership of real and financial assets (and thus, indirectly, to improve income distribution);
- to make investment capital available to more people;
- to ensure the availability of long-term financial resources while minimizing the risk of financial instability by lengthening the term of financial assets acceptable to savers, and establishing a proper framework for term transformation by financial institutions;
- to widen the range of financial services available through financial institutions;
- to improve the operational effectiveness of financial institutions; and
- to improve the terms under which foreign funds are raised and reduce the relative amounts required.

Implementation of Financial System Development Programs

A systematic approach to financial system development consists of the following components:

- analysis of the present strengths and weaknesses of the existing financial system;
- development of a medium- and long-term strategy of financial system reform in the light of broad national economic, social, and political objectives;
- design of a legislative and policy framework, especially fiscal and monetary policy, conducive to the strategy and objectives outlined above;
- construction of a system of governmental overview and regulation of financial institutions and markets in the interests of efficient intermediation and saver and investor protection;
- provision of an adequate supply of trained personnel in both the public and private sectors to operate the financial system;
- implementation of a satisfactory system of public and private accounting and auditing, together with rules on financial disclosure for public and private entities; and
- development of an appropriate range of public and private financial instruments, services, institutions, and markets.

As regards the last item above, the development of financial institutions and markets, it is clear that countries of various sizes, of different sociological and political backgrounds, and at different stages of economic development should phase the expansion of their financial sector in different ways and with varying degrees of emphasis on direct finance through markets, as compared with indirect finance through institutions.

Finally, no matter how well-designed the institutions and how competent the regulation, financial development can make little progress in the absence of public confidence. At the same time the reforms and improvements listed above are being implemented, every effort must be made to convince the public that the new policies are rational, consistent, and equitable, and that the policies will be reasonably consistent over time.

Introduction

The Existing Institutional and Policy Framework

Economies in the EMENA region are characterized by the predominance of the monetary sector and of the credit market, which mirror the underdevelopment of the nonmonetary sector and the securities market. This predominance in many ways perpetuates the underdevelopment of the money and capital markets. It fosters a close relationship between the credit sector and the budget, limiting to a marked extent the financing of the treasury to the credit markets through fixed purchases by banks, insurance companies, and provident funds and thereby restricting the development of money and capital markets that would result if they were given an

opportunity to finance part of the public resources requirements. It restrains the development of a full range of monetary and financial instruments and abets markets fragmentation, leaving the Development Finance Institutions (DFIs) isolated at the long-term end of the market; it slows down financial innovation. Indeed, experience shows that the pace of financial innovation -- quite often triggered by the regulatory framework -- is closely related to the institutional and instrumental diversification of the financial systems. Finally, because of the predominance of the monetary sector and credit market, the regulatory and supervisory frameworks tend to be overfocused on the money creating function of the financial system. This excessive concentration prevents them from focusing on the nonmonetary sector to eventually foster the development of this sector.

Debt and Equity Financing in the EMENA Region

In the developing countries of the EMENA region, the predominance of the monetary sectors traditionally reflected in the preponderance of investment financing with debt. Domestic savings, channeled through bank-type institutions, were and remain the main source of medium- and long-term lending. They have been supplemented by foreign savings in the form of loans from multilateral and bilateral institutions or from foreign banks. The role of foreign savings in the financing of investment increased during the last decade, although national savings still remain the main source. Only a very minor part of investment has been funded with domestic or foreign equity or equity type finance. This heavy reliance on debt has had adverse effects at both the macroeconomic and microeconomic levels. At the macroeconomic level, combined with recessions and slow growth, it caused debt servicing problems. At the microeconomic level, it led to unbalanced capital structures with high debt to equity ratios. High debt to equity ratios present few problems so long as firms continue to grow. However, once growth slows down or the interest rate rises, the debt service entailed by high debt to equity ratios strains enterprises' cash flow and thereby increases their vulnerability. In general, heavy reliance on debt rendered the region's economies and enterprises increasingly vulnerable to external and internal shocks and contributed to financial instability.

This lopsided financing of investment reflects the minor role played by capital markets in most EMENA countries. To reestablish a better balance between debt and equity, generate more risk capital, reduce the potential for financial instability, unify markets, improve financial intermediation, abet innovations, and deepen the financial system, the region must develop money and capital markets. Efficient money and capital markets introduce competition in the financial sector, lower intermediation costs, and provide borrowers and lenders with an alternative to bank debt financing. Such development, by strengthening and diversifying financial intermediation, and consequently the mobilization and allocation of financial resources, facilitates the process of financial adjustment. It also enhances the capacity of the central banks to regulate and control the money supply and credit through open market operations.

The Institutional Structure in EMENA

Except for the centrally planned economies, the overall structures of the financial sectors of the EMENA countries are not too dissimilar, and as already noted, are characterized by the predominance of the credit market, which mirrors the underdevelopment of the securities markets.

Within credit markets, commercial banks dominate EMENA financial systems, complemented by all-purpose or specialized development banks. This first group is followed by insurance companies and pension funds, although these are still underdeveloped in the region. A third group includes younger and smaller institutions that today play only a marginal role, such as finance companies, leasing companies, venture capital companies, and merchant banks.

The securities markets come last and, by international standards, are fairly underdeveloped in most countries in the region. Stock exchanges operate in a number of EMENA countries, but their contribution to investment finance remains marginal when compared to that of credit markets.

Money and Capital Markets in EMENA

In the EMENA region, the money market is most often limited to an interbank call market.

The market for government or government guaranteed debt (part of the securities market)—dealing in instruments ranging from treasury bills to bonds—tends to be far larger than that for private corporate bonds, and an active corporate securities market has developed only in Jordan where there is a relatively large market in medium-term issues that are guaranteed by commercial banks. Governments are increasingly recognizing the harmful consequences of deficit financing by recourse to the central bank and through mandatory investment in government securities at below market rates. Governments are beginning to issue securities priced at competitive rates, often through auctions. Growing secondary markets offer opportunities for introducing open market operations as a monetary policy tool. In some cases, the success of government bond issues has crowded out private enterprises from the bond market.

Primary markets for publicly listed new equities are active only in Portugal, Jordan, Turkey, and the Arab Republic of Egypt, although active private placement of equity issues occurs in some other EMENA countries. Except for Jordan, these primary markets are small, both in terms of the number of companies listed and total market capitalization.

Secondary markets for equity are limited with little trading depth. They are fragmented and lack transparency, with high intermediation costs and trading spreads in the 10 to 15 percent range. Trading is typically concentrated in the equities of a few firms, and the prices at which securities sell are low in terms of price earnings ratios, reflecting the weakness of these secondary markets.

In summary, money and capital markets in the EMENA region are commonly characterized by a low level of funds being raised, a limited range of corporate securities available to investors, a low volume of secondary market transactions, and insufficient strength and sophistication of the financial intermediaries involved. As a result, activity in securities markets has failed to build up in the

EMENA region. This in turn has restricted the supply of and the demand for securities.

Constraints to the Supply of and Demand for Securities in EMENA

Factors Limiting the Supply of Securities

One of the main problems of all EMENA securities (bond and equity) markets is the relatively limited supply of corporate bonds and equities in the primary market. Several factors prevent EMENA's private and public enterprises from listing their securities. Among these factors, the main ones are

- the distortions in the price structure of financial assets created by biases in fiscal, interest rate, and credit policies;
- the high cost of issuing and trading, due sometimes to regulations, sometimes to outdated trading techniques, and sometimes to the limited size of the market or of operations;
- the predominance of family-owned companies¹
- the importance of state-owned companies with a preference for relying on public funds;
- the reluctance to disclose information to the tax authorities, competitors, and the public;
- the fiscal disincentives, or lack of fiscal and other incentives to companies for going public;
- the severe restrictions on investment in foreign securities; and
- the outdated company laws.

Given these obstacles, EMENA securities markets have on the whole not been able to provide investors with low risk, easily accessible, and liquid, money and capital market instruments and securities.

Factors Limiting the Demand for Securities

In the EMENA countries in general, investors' demand for securities is far below its potential.² More importantly, the participation of institutional investors, such as insurance companies, pension funds, and social security funds, and unit and investment trusts, tends to be limited, and yet their active participation is critical to the strength of the market, as it provides a steady flow of funds to the securities market, a stable base for long-term investors, and the capability of evaluating investment opportunities on a more professional basis than individual investors.

In general, individual investors' demand for securities is constrained by:

-
1. Estimates indicate that on the average, the percentage of shares held by the controlling family interests—thus nontraded—is in the range of 70 to 90 for these companies.
 2. In most countries, the number of direct individual investors is less than 5 percent of the economically active population, as opposed to about 25 percent in developed countries.

- the lack of market-oriented instruments and the existence of more attractive alternative instruments in terms of after tax return, risk, and liquidity;
- the lack of confidence stemming from the absence of sufficient information on the part of the listed companies and the lack of transparency with regard to accounting procedures and auditing standards;
- the discriminatory taxes and more generally insufficient incentives to invest in securities;
- the investors' insufficient education as to the risks and rewards of investment in securities.
- Institutional investors' demand for securities is, in turn, constrained by
- the sensitivity to possible capital losses, especially in view of the markets' illiquidity and volatility;
- the governments' policies inducing investment in alternative public instruments;
- the lack of development of private sector institutions;
- the lack of confidence stemming from the same factors that deter individual investors;
- the lack of understanding a general uneasiness with regard to equity market operation.

One more underlying cause of the problems affecting both supply and demand of securities in EMENA countries is weaknesses and shortcomings in the fields of accounting practices, procedures and credit analysis. This affects securities market development by hindering the buildup of investors' confidence, and weakens countries' institutional capacity to protect investors' interests.

Developing Money and Capital Markets in the EMENA Region: Some Suggestions from Other Countries' Experiences

Policies for Success

An analysis of the process of development of money and capital markets in different countries helps to identify some policies that, in the context of these countries, fostered the development of these markets. Although these policies or policy mixes would not necessarily apply as such to the countries of the EMENA region, several are worth mulling over.

The development and activity of capital markets depend upon the health of the economy, which implies that policies for efficient economic development have an important bearing on their future. Investors are very sensitive to political or economic uncertainty. Hence, a combination of macroeconomic and sector policies aimed at the maintenance of political stability, steady economic growth, and low inflation is necessary to foster an environment propitious to the harmonious development of money and capital markets. Uncertainty generated by stop-go policies, fluctuations in exchange or interest rates, and inflation are bound to hamper their development.

More specifically, interest rates policies, budgetary and fiscal policies, including the level and the structure of taxation, and price policies, to cite only some of the main ones, are critical variables to the mobilization and allocation of financial resources in countries of the EMENA region, and thereby critical variables for the development of their money and capital markets.

Interest Rates Policies. Market determined interest rates lead financial intermediation to operate across the gamut of institutions, instruments, and maturities, that is, across credit, money, and capital markets simultaneously because they permit all borrowers and lenders to assess adequately the risk and price of all available financial instruments. At the same time, financial intermediation that encompasses both the credit and the securities markets, usually leads to competition, not only among institutions, but also among different instruments, and thereby keeps intermediation costs low. Regulated interest rates kept artificially low or below the inflation rate for a sustained period (that is, including a subsidy element), encourage debt rather than equity financing. Deregulation of interest rates, leads to interest rates structures that reflect the opportunity cost of capital more accurately. A higher cost of capital not only allows financial intermediaries to raise deposit rates and consequently promote financial resource mobilization, but also instills greater prudence on the part of firms in their use of financial resources.³

Credit Policies. Leaving the allocation of financial resources mainly to the market fosters the development of money and capital markets because it leaves them free to respond to the unconstrained demand for their products.

As interest rates in several EMENA countries have not always been market determined, governments have been involved in credit allocation in general and in the provision of medium-and long-term credit (often at below market rates) in particular. This has in a sense preempted the role that money and capital markets and the institutions composing them could have played in medium-and long term credit supply. The availability of cheap credit, as mentioned above, gives enterprises every incentive to borrow rather than to float equity. One cause of government intervention is the underdevelopment of money and capital markets, but since this intervention prevented these markets, in turn, developing, it created a vicious circle perpetuating underdevelopment. Government involvement in credit markets was compounded by treasuries' heavy recourse to them caused by imbalances in public accounts as well as the financing needs of public enterprises. This, in the same way, worked against development and capital markets.

The situation described above needs qualification. During the past five years, in several EMENA countries, treasuries began shifting their financing from central banks (money printing) to the issuing of bills and bonds. This, of course, had beneficial effects on the development of money and capital markets in

3. Interest rate repression may lead to capital outflows and foreign exchange shortages, and may thus have a negative impact on the overall economic climate. Moreover, negative real interest rates make it profitable to borrow for inflation hedges and this crowds out financing for fixed investment.

countries that witnessed this shift; but, it sometimes created a further problem reflected in the crowding out of the private sector from the bond market. In several cases bonds were issued at market or quasi market rates with tax exempt yields. The private sector could not compete against such high after tax yields enhanced by the virtually risk free character of the bonds. The developmental effect of these bonds on money and capital markets was therefore limited and often introduced additional biases.

Tax Policies. A fiscal burden that is equal with respect to proceeds and yields from debt and from equity and that does not discourage new listing on the stock exchange has been an important factor in the development of money and capital markets in many cases.

In many EMENA countries, the tax system is not neutral with regard to proceeds from debt and from equity. Tax systems tend to favor debt financing over equity financing. In general, tax treatment of dividends is complex and adds to an already high corporate tax burden. Because investors choose between alternative saving instruments on the basis of their expectations of after tax return, this leads firms that want to be competitive in the money and capital markets to pay high dividends, thereby reducing their self-financing capability and, inversely, inducing investors to focus excessively on dividend payouts. At the same time it raises the cost of equity capital and restricts the number of firms that can obtain finance through equity markets.

Should countries introduce special incentives to foster the development of capital markets? Several countries outside the EMENA region use one or more of the following tax incentives:

a. On the supply side:

- favorable corporate tax rates for publicly listed companies, for instance, Brazil and Thailand;⁴
- investment allowances related to the cost of plant and machinery, several European countries;
- accelerated rate of depreciation during the first year of expansion or diversification for listed companies, for instance Korea;
- abolition or reduction of inheritance taxes for listed companies for instance, Argentina.

b. On the demand side:

- tax credit for securities acquisition, often differentiated in relation to the type of instrument for instance, Brazil—the longer the maturity of the instrument, the greater the tax credit;
- taxation of interest on credit instruments equated with the level of taxation of dividends and bond yields; (Jamaica is moving in that direction);

4. Some countries consider that the tax incentive should at least cover increase in taxes payable because of disclosure (a result of previous tax evasion). On the average this translates—in most countries that apply this incentive—into a tax incentive differential of at least 25%.

- exemption of securities transactions from capital gains taxes;⁵
- no taxation of the premium of newly issued shares over par value;
- provision of tax incentives to companies that offer shares to employees;
- favorable tax treatment for premiums paid on life insurance policies invested in equities, (India);
- lower withholding taxes on dividends for foreign portfolio investors, (Singapore, Luxemburg);
- double taxation treaties with other countries.
- c. **With regard to intermediaries:**
 - stamp duty tax, turnover, and transaction taxes are kept at a minimum level so as not to discourage liquidity and turnover; (Jamaica is abolishing stamp duty taxes.)

The Legal Framework. Two prerequisites for the development of money and capital markets are that the legal framework is both cohesive and comprehensive. Equity markets cannot develop and operate efficiently, if the rules of trading, intermediation, information disclosure, and regulation of takeovers are not fully incorporated in the country's legislation. In particular, the investing public needs to be protected from stock market manipulation. Brokers and underwriters must follow professional codes of conduct. Governments, in their concern to protect small investors must, however, avoid over regulating markets. Examples of the kind of legislation needed follow below.

COMPANY LAWS. In most EMENA countries the national company law usually governs business enterprises, banking, investment, industrial finance, securities exchanges, commercial accounting, and taxation. In several countries, many parts of these laws and related regulations have accumulated over time and date back to periods when the development of money and capital markets was not high priority. As already discussed, these laws and regulations are often overfocused on credit markets, thereby thwarting expansion of financial intermediation toward money and capital markets. Also, they are seldom cohesive and lack the flexibility needed to incorporate new financial institutions and instruments or to protect investors fairly. The resulting shortcomings hamper the development of money and capital markets. Some of these shortcomings are:

- restricted potential for market development (for instance, limitations on incorporation without bureaucratic approval, restrictions on issuance of pricing of securities);

5. Capital gains taxes are often considered a major impediment to secondary market liquidity. High capital gains taxes reduce the liquidity of investors by affecting their ability to sell their shares without incurring large tax payments. For instance, the cutting of capital gains tax in the United States from 70 percent to 20 percent had a significant impact on fostering the venture capital industry. There appears to be general agreement that in the very least, long-term holdings of securities should not be taxed disadvantageously compared with gains from real estate: Singapore, Malaysia, the Republic of Korea, Thailand, and Indonesia are some of the countries that have no capital gains tax.

- failure to clarify the legal position of certain activities (for instance, lack of clear rules for disclosure);
- inadequate protection for securities holders (for instance, minority shareholders left unprotected);
- inadequate administration and enforcement of the law (for instance, failure to provide appropriate enforcement powers and sanctions).

COMPREHENSIVE MONEY AND CAPITAL MARKETS LAWS. Countries like Thailand, where money and capital markets have developed harmoniously, often have comprehensive money and capital market laws that cover the following matters:

- establishment of a capital market authority whose development objectives, powers, and relationship to other government entities are clearly defined; definition of the responsibility for regulation and supervision of the primary and secondary markets for securities; definition of responsibility for supervision of public companies, institutional investors, securities market intermediaries, and review and approval of all public offerings of corporate securities and noncredit negotiable instruments;
- definition of key terms, such as, "securities," "brokers," "underwriters," and "public offering";
- provision of incentives for companies to go public;
- definition of requirements for information flows and disclosure;
- establishment and enforcement of auditing and accounting standards;
- identification of activities prohibited in the market like fraud, insider trading, market manipulation;
- definition of requirements for protection of instruments holders and;
- sanctions for violations, both civil and criminal.

STOCK EXCHANGE LAW. Legislation governing the stock exchange is sometimes part of the overall money and capital market law and sometimes a separate piece of legislation. It usually covers the following matters:

- functions of the exchanges;
- regulation or self-regulation;
- membership criteria;
- listing requirements that have to balance the ease of entry for firms wishing to go public with protection of investors from financial unsound firms; and
- brokerage commissions, that have to be flexible so as to encourage competition via lower intermediation cost.

Regulatory Improvements. Investors' confidence in the way money and capital markets operate is critical to their development. This confidence is closely related to the adequacy of the regulatory and supervisory framework. In most EMENA countries, supervision of money and capital markets is divided among various government bodies. Hence, capital markets regulation is often unfocused and its regulation rigid and unresponsive to change. Many of the professionals required for financial supervision and regulation, such as financial analysts, lawyers, and accountants, are in short supply. Moreover, regulatory bodies are too often oriented toward prevention of abuse rather than market development.

Many countries that today have a comprehensive set of money and capital market laws and regulations introduced them at one point in time following a

comprehensive review of existing systems. For instance, Korea overhauled and consolidated its money and capital market law in 1968, Hong Kong reviewed the functioning of its market in 1988 and produced a proposal for a fundamental overhaul of the system.

Reviews of existing systems are usually aimed at:

- streamlining the regulatory responsibilities of various public bodies to minimize overlaps;
- regulating disclosure of information for listed companies;
- improving supervision procedures of financial institutions together with setting-up the authority needed to enforce existing laws, rules, and regulations;
- expanding the developmental role of the regulatory bodies with regard to money and capital markets;
- improving staff and enhancing their expertise;
- establishing a comprehensive and uniform system for public reporting of financial statements;
- establishing procedures for certification by reliable, professionally qualified external auditors⁶; and
- developing credit rating agencies, a prerequisite to the development of a securities market without which investors will lack the confidence or ability to invest in securities.

The Institutional Framework. MONEY MARKETS. In the initial stages of development, money markets are mainly limited to interbank markets, but as development proceeds, more and more money market instruments are added and the range of institutions widens. Ultimately, in well-developed markets, money market activities take place on an over-the-counter basis, most often outside of any formal exchange. Electronic clearing and transfer systems become essential ingredients to the full development of an over-the-counter money market and end up including fully integrated, real time information systems encompassing all intermediaries.

CAPITAL MARKETS. In the initial stages of development, trading takes place on an informal, private basis. At a later stage, bonds and equities are listed on a formal exchange to increase trading efficiency and introduce supervision. Some countries have adopted a two- or three- tiered trading system as a means to resolve potential areas of conflict between high listing standards requirements and incentives to list. Under this system, newer and presumably more risky companies trade on a lower tier or "second or third board" where listing requirements are less stringent than on the "big board." Generally, company listing fees, annual fees, and membership fees are structured so as to cover the

6. Professional accountants and auditors play a central role in rendering the performance of companies more transparent. Specific measures are needed to strengthen the capacity of professional accountant associations to fulfill the following responsibilities to their members: training, testing, certification and licensing, establishing uniform accounting and auditing principles and standardizing financial statements.

operating costs of the stock exchange. Later on in the evolutionary cycle, as technology becomes readily available and investor protection is well provided for, a wholly computerized market along the lines of the US NASDAQ (over the counter market) tends to develop.

Listing, Disclosure, and Information Requirements. Firms may not wish to go public because they anticipate difficulties with tax authorities following first time disclosure of pertinent information. As noted earlier, one of the most common approaches to this problem is to offer companies going public a partial exemption from the payment of corporate taxes, like in Indonesia. Another approach, adopted by Korea, includes special fiscal investigation by tax authorities of companies deemed to be potential public companies, but that choose not to go public.

The degree of financial disclosure should be the same for all limited liability companies irrespective of whether they are public or not.

Accounting and Auditing Standards. Financial information may not be accurate or comparable from company to company without the adoption and enforcement of generally accepted accounting standards. Such standards go along with the need for a strong and independent auditing profession.

Increasing the Supply of Securities

Private Companies. Private companies that meet the listing requirements are sometimes lightly penalized for not going public. The penalty "stick" rather than the tax inducement "carrot" has been applied in Korea, Jordan and Egypt. The ministry of finance may even be given the power to force companies to go public, but it should use this privilege as a last resort once other inducements and penalties have failed.

Public Companies. High price to earnings ratios diminish the relative cost of capital for companies making equity issues. Government guarantees of corporate bond issues, or a bond insurance agency, usually facilitate the acceptance of these instruments in the market.

Conglomerates. Conglomerates are often encouraged to spin off divisions and have them separately listed. A company with a clear corporate identity is easier for financial analysts to evaluate and this clarity is often reflected in their recommendations.

Public Enterprises. In most EMENA countries, public enterprises have not been encouraged to raise funds on their own, that is, have not been encouraged to seek financial autonomy. Instead, they are typically over dependent on direct government funding, low-interest loans from banks, or external borrowing with government guarantees.

The supply of securities could be increased if governments were to actively encourage their public enterprises to raise capital in the securities market. This would allow governments to reduce their budget deficits, permit development banks

to channel more funds to productive private sector firms, and would put the pressure of the marketplace on enhancing the quality of public management.

Foreign-Owned Companies. The stock exchange provides a suitable vehicle for foreign-owned companies to sell a noncontrolling interest to local investors. For instance, Indonesia and Nigeria have encouraged foreign joint-venture companies to go public or make a private placement. There are no restrictions on foreign investment in Hong Kong, whose stock exchange lists several regional mutual funds. A similar situation prevails in Singapore.

Increasing the Demand for Securities

Lack of fiscal discrimination and the removal of the previously discussed impediments are key elements in increasing the demand for securities. Liquidity in the secondary market is also a critical factor. There is a need for a sufficient number of trading elements in the marketplace as well as for adequate procedures ensuring a continuous and orderly market and trading transparency.

Demand for securities could be stimulated by allowing securities firms and banks to grant margin loans and accept securities as collateral, although this is a tricky incentive and requires a well-developed and flexible institutional and legal framework; it worked well in Jordan and Korea.

To encourage an active secondary corporate bond and equity market, initially the central bank should stand ready to redeem bonds so as to ensure liquidity of last resort. Over time, as has happened in many developed markets, commercial banks will realize the advantages of joining in this market rather than fighting its emergence. Income can be generated by banks guaranteeing corporate bond issues and dealing in the markets and by payment of other related fees and commissions.

To attract foreign capital, nonresident savings can be induced to invest in securities market investments via special unit trusts (like in most East Asian countries). Such trusts have been established in Turkey, Pakistan, and India, for instance. Later, foreign investors could be induced to invest in closed-end country funds. This structure minimizes the monetary volatility element that is present with open-end funds. Attraction of foreign financial investment usually calls for:

- policies conducive to political and economic stability;
- promotion of an adequate flow of information about the local securities market and the performance of listed companies;
- a concerted effort to bring market supervision, credit analysis, and accounting practices close to international standards; and
- provision of guarantees of foreign exchange convertibility and capital repatriation.

New Institutions and New Instruments

New Financial Institutions⁷

In examining the suitability of the institutional structure with regard to money and capital markets developments, the following issues need to be addressed:

- Do the range of products and services offered by financial institutions meet market demands?
- Is financial intermediation provided at a reasonable cost?
- Is there a healthy level of competition between financial institutions?
- Are financial institutions' asset-liability management and capital structure appropriate for the activities in which they currently engage?

In the course of this examination, financial authorities will need to take a basic decision: should the securities markets be developed via a universal banking system or via numerous specialized financial institutions. Comparative data tend to show that countries that have taken the specialized institution route have deeper financial markets, lower intermediation costs, and a greater level of competition.⁸ However, due to the dominance of commercial banks and development finance institutions in most EMENA countries, their cooperation in securities market development will be needed. This may be done directly through establishing investment banking and brokerage subsidiaries, and indirectly as institutional investors.

Active specialist underwriters, brokers, dealers, and market makers are primary catalysts in fostering a primary issue market and generating liquidity in the secondary market.

Primary market. Typically, merchant banks are the main underwriters of securities in EMENA countries. It is estimated that a country needs at least four active merchant banks to achieve the minimal critical mass in terms of underwriting expertise and competition. Commercial banks and DFIs could establish merchant banking subsidiaries operating as independent profit centers. This would solve the supervision issue: the banks would continue to be supervised by the central bank while the subsidiary would come within the jurisdiction of a capital market authority.

A key element to a successful primary market is to have a core of professionally trained securities analysts who can examine the quality and level of current and prospective earnings in determining a share issue price. Only then will underwriters have the confidence to offer issues on a "firm commitment" basis rather than the current trend of "standby" or "best efforts" bases.

7. Annex I shows the main types of institutions by country.

8. Annex II discusses one of the relative merits of "universal banking" vs "specialized banking"

Supply-Side Issues. Without a reasonable number of publicly listed companies and trading market volume, investors will place their funds elsewhere. Financial institutions can provide a source of public listings in the following ways:

- undercapitalized financial institutions could be required to make a public issue of securities;
- governments could, when appropriate, privatize their holdings in various financial institutions via the public securities market;
- the development of leasing companies should be encouraged. As title to the leased equipment remains with the lessor, the leasing company is in a position to raise funds in the securities markets by a variety of asset-backed issues. Leasing is a particularly attractive source of financing in Islamic countries as the payment is considered a rent rather than interest on a loan, and;
- venture capital companies are the primary incubators of small and medium sized companies that may eventually use the securities market for a public issue. A liquid securities market and low capital gains taxes are two key institutional elements for facilitating a venture capital industry.

Demand-Side Issues. Financial Institutions tend to be the largest investor group in mature securities markets. These institutions range from commercial banks to insurance and pension fund companies to unit trusts and mutual funds. The common evolutionary path in securities market development is for governments initially to dominate the demand side, then to be eclipsed by the individual investor, and finally by the institutional investor.

Commercial banks. These institutions, with their large "captive" deposit bases, should be expected and required to diversify their portfolios. With bond issues they could also perform the roles of trustee and guarantor while their branch network is an ideal point-of-sale outlet for financial services.

At present, a number of impediments are preventing the commercial banks in several EMENA countries from fulfilling their potential as securities investors. They include:

- restrictive regulations concerning their level of equity investments;
- government requirements to purchase treasury bonds, which "crowds out" investment in other forms of securities;
- a common perception that securities market development is in direct conflict with commercial banks' primary activity; however, the trend in developed markets is for commercial banks to gradually redefine their business from commercial banking to the provision of financial services;

Insurance and pension fund companies. These companies are even more important than banks as market-oriented, institutional investors. This is because there are fewer potential conflicts of interest, along with an investment policy and funding base that tend to be geared to the long term. Insurance companies cover life, general casual, and reinsurance, while pension funds range from government funded to corporate to private individuals. They must be allowed relative autonomy to invest their funds in a wide range of financial instruments, even if this marginally increases the government's overall cost of funds.

Unit trusts, mutual funds, and investment companies. Relatively unsophisticated individual investors can substantially benefit from pooling their funds in these diversified investment companies. The benefits include the following:

- greater access to material research and information;
- financial and securities analysis expertise;
- lower intermediation costs if commissions are negotiable; and
- a better-balanced portfolio.

New Financial Instruments

The development of money and capital markets requires a range of financial instruments that can satisfy investors' risk and return criteria. A generic chronological path for developing financial instruments starts with treasury and government guaranteed short-term bonds, followed by other money market instruments issued by financial institutions, corporations, and money market funds. A bond market with longer maturities is the next logical step, followed by an equity market. Finally, a range of risk management instruments, such as futures, options and swaps, are made available. Annex III outlines this generic chronological path in detail.

A broad range of financial instruments can benefit the government in two ways. First, it renders open market operations more efficient. Second, a money and bond market in which interest rates are freely determined by supply and demand factors provides the money and financial authorities with timely indications of overall monetary and financing conditions.

Money Markets. The auctioning of treasury securities is an initial step in allowing market forces to dictate interest rates. Further steps include developing a secondary market in these securities as well as in those of public enterprises. Financial institutions should be encouraged to develop an interbank market as well as to issue and purchase bankers acceptances and promissory rates.

A commercial paper market is a vital element of a fully-functioning money market. The development of this market is often opposed by commercial banks. This is due to the direct disintermediation effect as, unlike long-term bonds and equities, there is no term transformation involved. Nevertheless, experience has shown that commercial banks eventually realize that they can gain more by joining this market rather than by lobbying against the inevitable.

Bond Markets. Bond instruments with longer maturities are generally the next step in the development process. One of the important by-products of market-determined government bond yields is to create an interest rate benchmark for corporate bonds.

Corporate bond markets tend to develop more slowly than equity markets. This is due to impediments such as commercial bank lobbying, fixed interest rates, and high inflation rates. To encourage an active secondary market in these instruments, the central bank could stand ready to redeem the bonds at any time. This would put in place a liquidity-of-the-last-resort mechanism.

Asset-backed bonds should also be marketed. Bonds collateralized by real estate, equipment, or other real assets are very suited to markets where there is inadequate financial information.

Equity Markets. Initially "plain vanilla" equity instruments tend to predominate. However, at a later stage, equity-linked instruments appear, including warrants, convertibles, preferred, and numerous voting right privileges.

Hybrid Instruments. As already mentioned, the development of a securities market would ensure greater and wider access to risk capital on the part of the economic agents. In the presence of a developing securities market, risk capital investment can be enhanced through the use of instruments that can provide investors with more stable and less risky returns, and, or help them encash their capital gains with greater ease. To that end it is advisable to introduce and expand the use of hybrid instruments like straight preferred shares, convertible and participating preferred, convertible subordinated debt, and straight debt with an attached equity feature. Except for straight preferred, these instruments usually carry a lower interest or predetermined dividend rates which is compensated for with some probability of additional gain. The gain can take the form of a future participation in profits or capital appreciation, and can become very substantial if the company does well. Hybrid instruments have another advantage in the EMENA context, namely, to meet the capital needs of entrepreneurs who wish to retain control of their companies. They are particularly suitable for use by family controlled companies.

Training and Promotion.

The education of the investor, intermediary, issuer, and regulator is a vital ingredient to the successful development of the securities market. All too often the human element is overlooked.

A vigorous campaign of public education and promotion should be mounted. The education process must involve the development of qualified financial journalists, improvements in the quality of financial market publications, and a superior financial education in universities and secondary schools. In this regard, financial institutions should be encouraged to provide educational advice to individual investors. Moreover, both radio and television should be used to inform more people about the advantages, risks, and daily developments in, the securities market.

Comment on Mr. Paul A. Popiel's Paper by Prof. Dr. Ismail Turk, Chairman, Capital Market Board, Turkey

My comments focus on Turkey's recent experience with the development of capital markets within the framework developed in Paul Popiel's paper. However, I would first like to draw attention to two rather general points. First, as Mr. Popiel pointed out, capital market development is very sensitive to the stability of the general economic environment. Price stability and consistent economic policies are prerequisites for successful implementation of a capital market development program. Second, a society's savings propensity is a complex function of social and economic factors which financial reforms by themselves cannot influence. However, if one distinguishes between financial and nonfinancial savings, a successful financial reform program can certainly influence the magnitude of financial savings and their asset composition.

The Turkish Financial System

Commercial banks dominate the Turkish financial system. Commercial banks operate in a system described as a "universal banking system in the broad sense" in Annex III of Popiel's paper. Their dominance did not diminish after 1981, the year in which the Capital Market Law was enacted. This is mostly because this Law gave the banks important roles in the capital markets. However, the corporate sector still seems to prefer to rely on banks to finance their activities.

The corporate sector relies on bank financing for three reasons. The first is directly related to the relatively small scale of capital markets in Turkey. Second, financial intermediaries specialized in capital markets are absent. Commercial banks have an advantageous position in primary market operations due to their accumulated knowledge about financial markets and relatively large distribution networks. Third, the banks provide a variety of financial services that induces corporations to prefer package deals.

Capital Markets: Supply and Demand

An analysis of the Capital Market Board's issues of securities permissions shows that since the second half of 1986, the volume of securities issued is rapidly increasing. However, the board is not under the illusion that all problems with respect to the "constraints to supply of and demand for securities" in Turkey are solved.

The Capital Market Board was established in 1982, Turkey's first step in regulating and developing capital markets. Following the bankers' crisis, the board's first objective was to regain investors' confidence in the financial sector. To achieve this the board established the legal and regulatory framework of Turkish capital markets in 1985. Only then, did the need to devise incentive mechanisms to foster the development of capital markets become their top priority.

To devise an appropriate incentive mechanism, the board had to identify constraints that impeded the development of the securities markets.

Supply-Side Constraints

The most important impediment to the growth of capital markets in Turkey is corporations' reluctance to issue securities, particularly stocks. This is not peculiar to Turkey. In almost all societies where corporations are controlled by a few large shareholders—especially when they belong to the same family—resistance exists to programs offering the corporations' shares to the public. Easy access to bank credit strengthens this attitude. In addition, the unequal treatment of public and private companies with respect to their disclosure requirements also contributes to corporations' reluctance to use the financing opportunities of the capital markets.

A recent study found that in 44 out of 164 publicly held corporations, that is, corporations under the supervision of Capital Market Board, just one shareholder controls 70 percent of the shares. The average number of shareholders of these 44 corporations is 610.

In the short run, fiscal incentives seem to be an effective mechanism to increase the supply of securities. However, incentive mechanisms should contain an explicit and meaningful definition of the concept of public corporation. In March 1987, the government enacted a new tax incentive program for public corporations.

Another factor limiting the supply of private sector securities is the absence of financial intermediaries that specialize in the securities industry. Any corporation issuing securities needs market information. If the corporation cannot get adequate information and cannot find the necessary distribution and marketing network, it may become reluctant to change its method of financing its activities. Today some banks attempt to perform this marketing function, but their number and expertise are limited.

Note also that the cost of issuing and trading securities is not a factor that hinders the development of capital markets. When compared with credit costs, the costs of issuing securities are substantially lower. Underwriting costs are around 0.5 for those companies considered reliable in financial circles. The competition among banks in underwriting activities drastically reduced these costs during the last year.

Demand-Side Constraints

An important factor on the demand side of the market is the absence of institutional investors. Turkey has insurance companies, pension funds, and social security institutions; however, their capital market activities are fairly limited. Government regulations limiting their initiative in portfolio operations is one important reason.

Another factor that discourages these institutions from allocating their funds to capital markets is their chronic cash deficiency. Close examination of their financial records reveals that these institutions face periodic difficulties in meeting their quarterly pension payments.

According to Turkish legislation, only banks can establish mutual funds. To date, eight banks have completed the legal procedures to establish mutual funds, however, they were not doing so because of a tax problem. With an amendment to the tax laws, this problem was solved in June 1987.

With the 1985 and 1987 tax law amendments laws and the 1986 changes in the interest rate structure, securities have become attractive investment alternatives, and have had a positive impact on the corporate bond market. Corporate bonds continue to be attractive investment alternatives as their interest rates are free following the recent changes in the interest rate structure in June 1987.

With regard to information, Turkey still has problems. However, this should not undermine the improvements achieved following the establishment of the Capital Market Board. The board is using independent firms to audit the corporations its supervision. This will be another step in the improvement of information flows.

Incentive Measures to Foster the Development of Capital Markets

Fiscal Incentive Measures. The government amended the tax laws in December 1985 to provide some incentives for the development of securities markets. These amendments include the following:

1. The corporate income tax rate was increased from 40 percent to 46 percent, however, for public corporations, the government has the authority to lower this rate to 40 percent. The decrease in the corporate tax rate for these companies became proportional to the amount of shares held by small shareholders.
2. Stock premiums are tax free if the stock is listed on an exchange and the premium is not distributed to shareholders.
3. The revenues of the collective investment funds, from their portfolio management operations are also tax free.
4. Dividends are no longer subject to double taxation. They are not subject to withholding tax or progressive taxation, only to corporate income tax.
5. Interest earnings on corporate bonds and deposit type instruments are only subject to a 10 percent withholding tax.

Under another amendment enacted in March 1987, new incentives were granted to public corporations with respect to corporate income tax rate. In that law, a public corporation is defined as an entity:

1. whose shares are listed on an exchange;
2. that has 80 percent of its shares registered;
3. whose capital structure is clearly identifiable from its record;
4. whose small shareholders control a minimum of less than 1 percent of the total each;
5. that has at least 200 shareholders; and
6. in which small shareholders hold a combined total of at least 25 percent of the shares.

The government amended the tax laws again in June 1987. The government now has the authority to lower or even abolish the withholding tax on the distributed earnings of collective investment funds. In 1985, funds' earnings from portfolio

operations were made tax free. However, if these earnings are distributed to the participants, they are subject to 10 percent withholding tax.

Other changes in June 1987 were aimed at lowering transaction costs in secondary market operations. The holders of securities are now not subject to income tax if they sell their securities through security dealers. An additional incentive was that the government now has the authority to lower or abolish stamp duty on underwriting agreements.

Interest Rate Policies

The Turkish Central Bank has the authority to determine interest rates on deposits, and to set these rates free. Interest rates on corporate bonds are tied to interest rates on one-year deposits.

In 1986 the Central Bank gradually lowered the interest rate on deposits to decrease the cost of credit, and interest rates on government debt instruments were also reduced. The result was a positive impact on corporate debt instruments. In July 1987, the interest rates on one-year deposits were set free, which enabled corporations to determine interest rates on their bonds freely.

Annex I

Financial Institutions in the Countries of the EMENA Region¹

Types / Countries	Turkey		Egypt		Morocco	Yugoslavia		S. Korea	W. Germany			
	Jordan	Portugal	Tunisia		Hungary	Chile	Japan	U.S.A.				
A. Intermediaries												
Brokers	x	x	x	x	x	x	•	x	x	x	x	x
Dealers/Market Makers	x	x	x	x	•	•	•	x	x	x	x	x
Underwriters	x	x	x	•	•	•	•	x	x	x	x	x
Merchant/Investing Banks	x	x	x	x	•	x	•	x	x	x	x	x
B. Institutions												
Insurance Companies	x	x	x	x	x	x	x	x	x	x	x	x
Pension/Superannuation Funds	x	x	x	•	x	x	x	x	x	x	x	x
Social Security Funds	x	x	x	•	•	•	•	x	x	x	x	x
Mutual Funds Cos.	x	•	x	•	•	•	•	x	x	x	x	x
Leasing Companies	x	x	x	x	x	x	•	x	x	x	x	x
Venture Capital Companies	x	x	x	•	•	•	x	•	x	x	x	x
Credit Rating Agency	•	•	•	•	•	•	•	•	x	x	x	x

1. Chile, South Korea, Japan and the USA are listed for purposes of comparison.

Annex II

Universal Banking vs. Specialized Banking: Some Relative Merits

An important sectoral issue in several EMENA countries concerns the questions whether "universal banking" or "specialized banking" is more suitable in these countries' financial context. Some relative merits are presented below.

The term universal banking is used generally to define two types of combined banking operations. In the narrower sense it refers to general purpose banks that engage in all deposit and credit activities, including conventional deposit taking and short-term lending, investment banking, general mortgage loans and housing finance, but not securities market activities. In the broader sense, universal banking also includes securities brokerage and dealership activities as well as the role of institutional investor. The following discussion concerns mainly the relative merits of specialized banking as compared to universal banking of the first type. A detailed discussion of the broader definition, which essentially involves merging banking and securities market operations, is excluded because the EMENA region does not currently appear to have a country in a position to move toward this alternative. The potential conflicts of interest between the development of banking and the development of a healthy securities market essentially rules this out as a viable option for the foreseeable future.

Without ruling out the possibility of moving towards universal bank at some time in the future, at the present stage of development of most of the EMENA financial systems, it would probably be easier to improve the overall functioning of these systems first, by trying to build up on the specialization model. In the immediate future, most of the EMENA financial systems can and should be strengthened taking advantage of several benefits that well-administered specialized banking systems could provide. In general, specialized institutions can be expected to be more efficient and show more innovation and entrepreneurship in delivering their specialty in financial services than universal banking institutions. This may be particularly important in the case of investment banks. Particular skills and technical capacity are needed to fulfill investment banking functions, which are typically not available among staff of other financial institutions. Also, since short-term operations tend to be dominant in universal banking institutions, the commitment of managers to long-term operations tends to be diluted. In contrast, specialized financial institutions and investment banks can better preserve their independence and role.

Universal banking does, however, offer some potential advantages that could offset the considerations outlined by the preceding paragraphs. Most important among the potential benefits are economies of scale in administration, diversification of lending risks among a large number of borrowers and types of operations, and greater flexibility in designing the most suitable financial service package for individual borrowing agents. These points are discussed in another policy paper presented at this gathering namely, *The Impact of Financial Adjustment on the Structure of Financial Sectors*. These scale advantages, if realized, can be passed on to borrowers and savers in the form of better services and improved efficiency. However, a good universal banking system would have to

embody measures to ensure that each type of banking activity is carried out on a sound basis, and that funds formally allocated for one purpose are not surreptitiously used for another. In the absence of adequate control of information on the operations of financial-industrial conglomerates, compliance with these principles would be very difficult to ensure, in particular in the EMENA region, where several countries are struggling to improve an outdated and weak regulatory and supervisory framework. On balance, therefore, it seems that in the context of most financial systems of EMENA region, the potential advantages of specialized banking outweigh the potential advantages of universal banking. In the longer term, once an adequate regulatory and supervisory framework is in place, a possible move—building on the strengthened capacities of constituent specialized institutions—could be considered. Such a future decision would have to depend on a careful reassessment of its relative advantages in relation to retaining a specialized banking system.

Finally, specialized banking offers an easier and better setup for regulation and supervision than universal banking, whose regulation and supervision is very complex and usually has to rely extensively on self-regulation and self-control. Hence, specialized banking is better suited to the rather limited capacity of regulation and supervision in the EMENA countries.

Annex III

Money and Capital Markets Instruments

Money Market

1. Government
 - Treasury bills and certificates
2. Financial institutions
 - Interbank market
 - Bankers' acceptances
 - Promissory notes
 - Certificates of deposit
3. Corporations
 - Bills of exchange
 - Trade acceptances
 - Commercial paper
4. Money market funds

Bond Market

1. Government
 - Government bonds
 - Public Enterprises Bonds
2. Financial institutions
 - Financial institution bonds
 - Mortgage bonds
 - Floating rate notes
3. Corporations
 - Corporate bonds
 - Convertible debentures
 - Bonds with warrants
 - "Junk" bonds

Equity Market

1. Government
 - Privatization, divestment
2. Financial
 - Sale of shares
3. Corporation
 - Common and preferred shares, warrants, options

Risk Management Instruments

Innovation	Price-risk transferring	Credit-risk transferring	Function credit generating	Liquidity enhancing
A. Off-balance sheet				
Swaps	x	0	x	0
Futures	x	0	0	0
Options & loan caps	x	0	0	0
Forward rate agreement	x	0	0	0
Letters of credit	0	x	0	0
Note issuance facilities	x	x	0	x
Credit-enhancing guarantees	0	x	0	x
B. On-balance sheet				
Asset sales without recourse	0	x	0	0
Loan swaps	0	x	0	0
Securities & assets	0	x	0	x
Transferable loan contracts	0	x	0	x
Adjustable rate mortgages	x	0	0	0
Floating rate loans	x	0	0	0
Back-to-back loans	x	0	0	0

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