Yilmaz Akyüz and Detlef Kotte. 1991. Financial policies in developing countries: issues and experience. UNCTAD discussion paper 40 (August).

Fundamental lessons from experience

- the overriding objective of financial reform and development should be the integration of the finance with industrial and investment policy;
- it is fundamental to ensure macroeconomic stability, as it reduces uncertainty and risks, increases the time horizon of decision making and investment decisions, and reduces the costs of adjustment and change;
- developing countries should concentrate on developing a bank-based financial system that works efficiently in close association with non-financial corporations, in order to achieve the fundamental goals of industrial policy, exert discipline over investment decisions and reduce information asymmetries and uncertainty;
- developing countries should take precautions regarding the bank-based, interventionist system in order to avoid abuse, moral hazard and adverse selection as well as excessive exposure and vulnerability of the economy and firms:
    - the government should ensure that the operation of the financial system is duly regulated and that regulations are coherent and consistent with overriding policy;
    - government should not use the system to finance public waste of resources;
    - non-financial corporations should not be able to control banks;
    - policy and regulation (example, cap on interest rates) should be used to ensure that profit margins of financial intermediaries are reduced and their costs-efficiency improves continuously, so that the supply of finance is guaranteed at low cost;
    - prudential regulation is essential and bank supervision are essential components of financial reform;
- governments should also regulate and control the operation of capital markets, where these are allowed to operate in conjunction with the banking system. This is crucial to avoid instability and speculation, which damage macroeconomic balances and do nothing to increase investment in real assets;
- governments should also regulate and pursue a cautious external financial policy, that limits short-term flows of capital, regulates the acquisition of non-resident assets and somewhat controls the acquisition of resident assets by non-residents.