



**International
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Local Currency Bond Markets

**Alison Harwood, Manager
Capital Markets and Corporate Governance
FPD, The World Bank Group**

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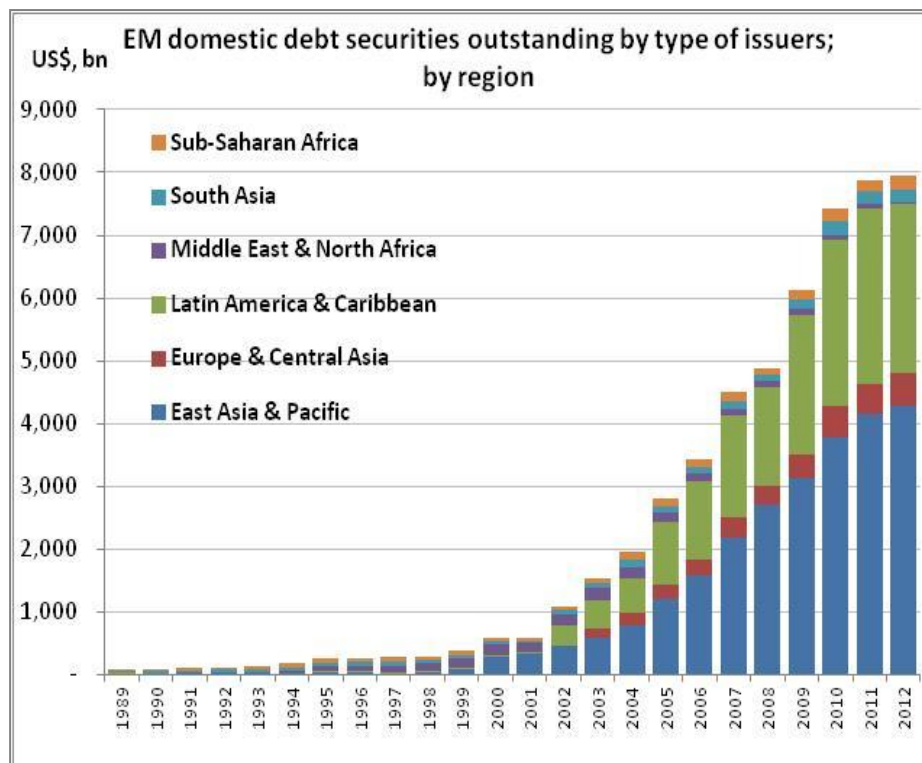
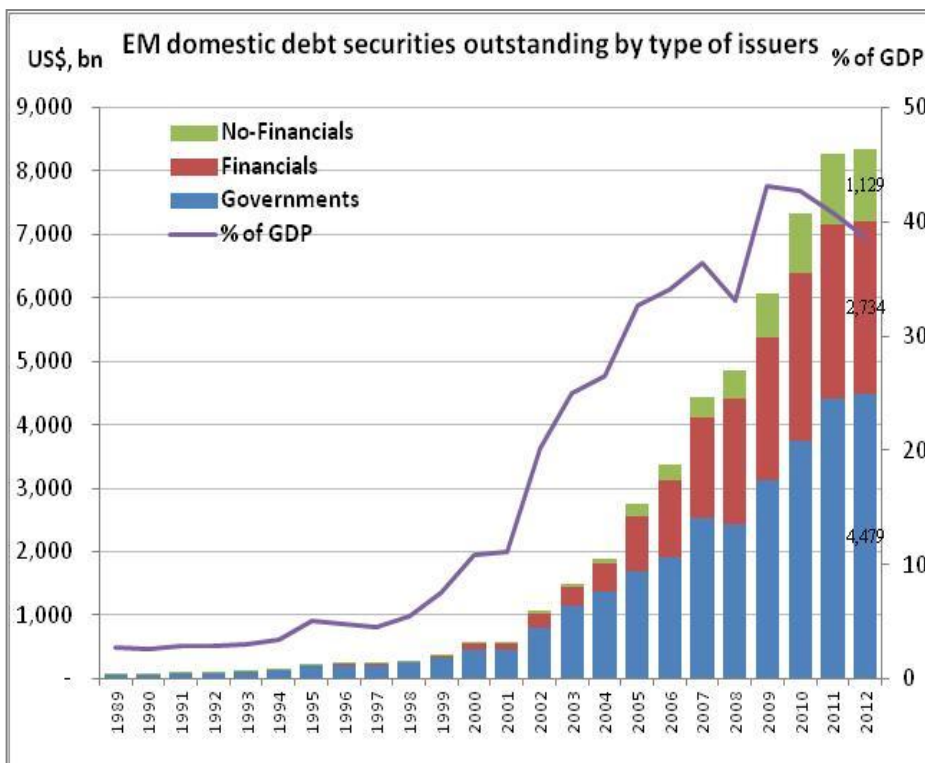
Increasing Importance of LCBMs

Objectives	Impact of LCBMs
Finance development and growth	<ul style="list-style-type: none"> ■ Improve and enhance impact of fiscal and monetary policies to sustain growth ■ Finance critical development areas, particularly infrastructure (through 2030, estimated \$57tn needed) and housing ■ Provide investment outlets for pensions/insurance funds
Promote stability	<ul style="list-style-type: none"> ■ Reduce reliance on external debt ■ Facilitate counter-cyclical policies ■ Enhance resilience to sudden reversals/stops of capital flows ■ Improve asset-liability matching (currencies, rates, maturities)
Foster financial sector development	<ul style="list-style-type: none"> ■ Provide pricing benchmarks for private sector instruments ■ Enable diversification from bank financing ■ Provide safer, more liquid savings vehicles for individuals and institutions



Growing LCBM Activity

EM domestic debt securities made significant strides in the last 15 years, led by domestic government debt (US\$4.5tn as of 6/12)



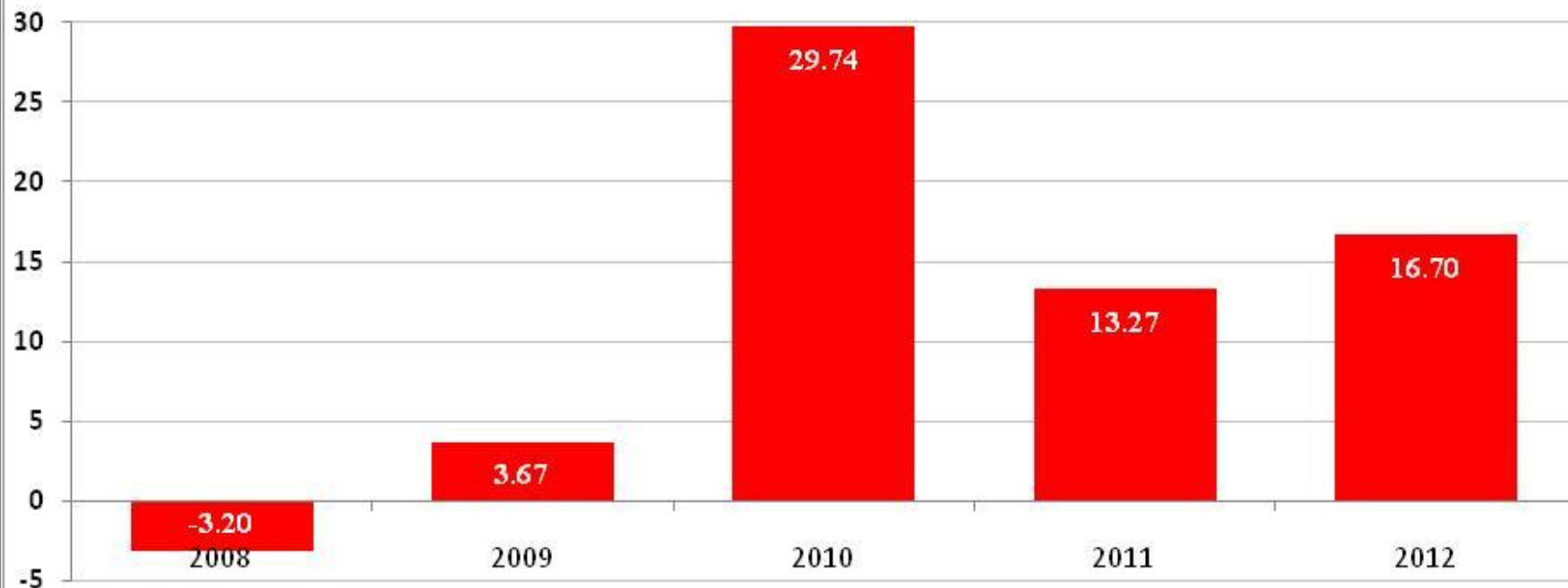
Notes: (1) EM included: East Asia: China, Indonesia, Malaysia, Philippines, Thailand; Europe/Central Asia: Croatia, Hungary, Poland, Russian Federation, Turkey; Latin America: Argentina, Brazil, Chile, Colombia, Mexico, Peru, South Asia: India, Pakistan; Middle East/Africa: Lebanon, Saudi Arabia, South Africa (2) As of June,2012 (3) GDP is from IMF WEO Oct, 2012;

Source: BIS table 16



Growing Global Focus on LCBMs

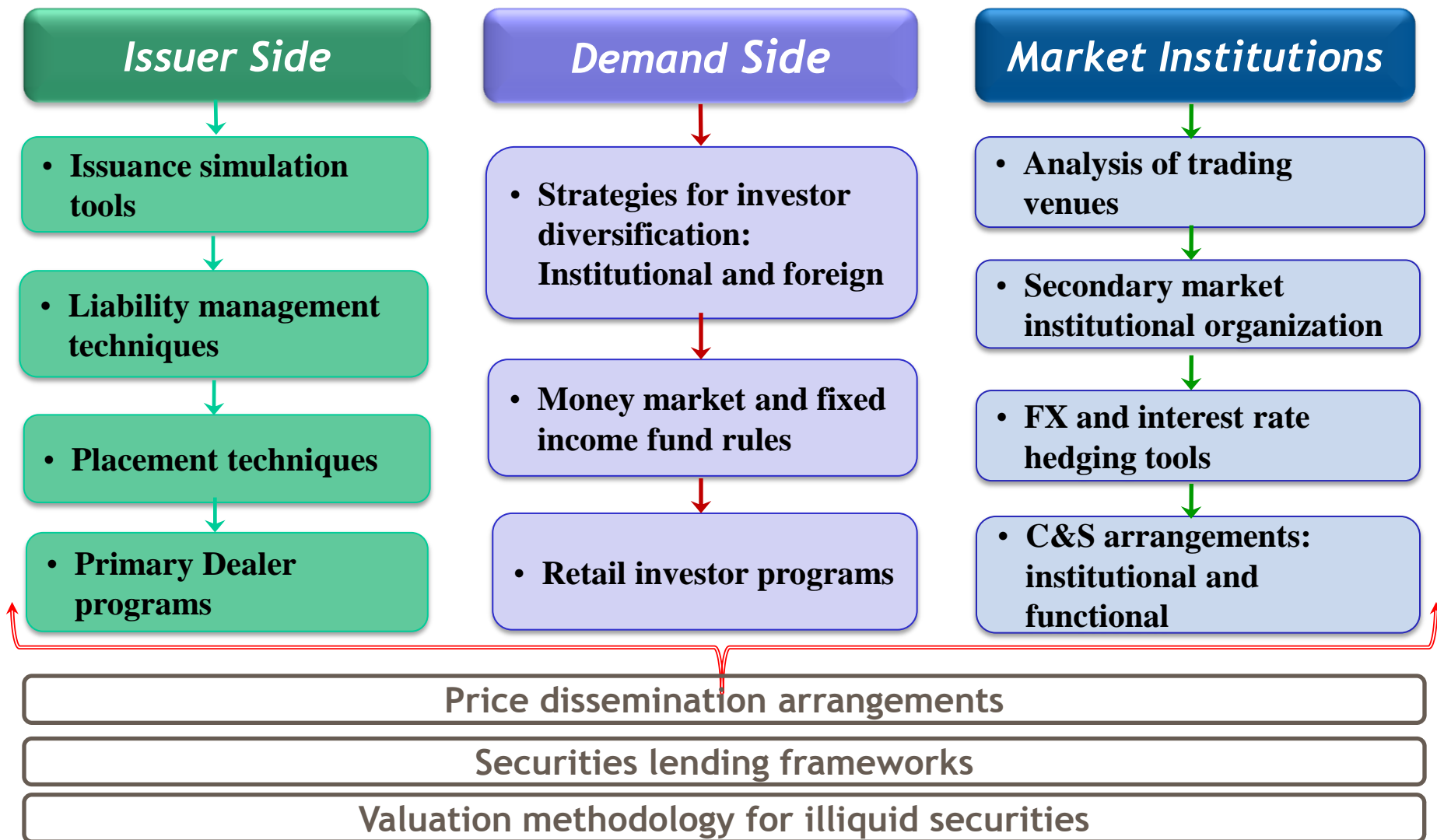
Flows to Local Currency Bond Funds (US\$, bn)



Source: EPFR monthly bond flows



GBMs: Typical Areas of Work on GBMs



Outcomes of Key Actions to Strengthen Selected GBMs

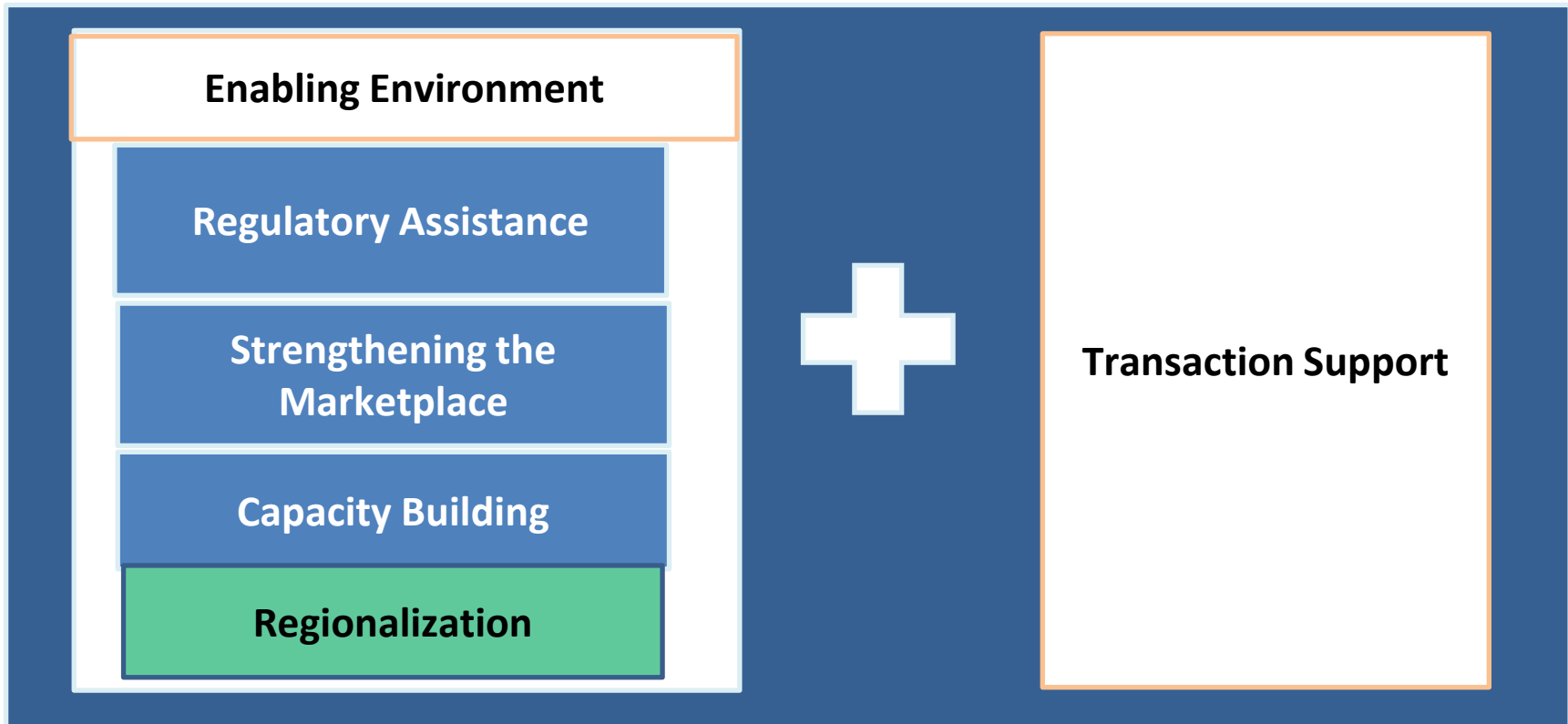
Key impact*	Brazil	Turkey	Egypt	S. Africa
Longer maturity	Fixed-yield curve extended to 10 years (2007) from non-existent (2003)	From no LT instrument (2003) to avg. 8-year maturity for LT instruments (2010);	Gradual increase in avg. maturity; ST bonds declined from 74% to 58% (2008-2010)	Increased portion of LT instrument, from 27% (2003) to 37% (2010)
Diversity of instruments	Reduced floating-rate notes from 50% to under 30%			Inflation-linked; from none to 16% of portfolio in 2009
Broader investor base	Diversified investor base; increased foreign participation from 1% to 11% (2005-2010)	Increase in foreign investor participation from 6% to 12% (2003-2010)	Confidence growing, increased foreign participation from 8% to 12% (2008-2010)	
Reduced borrowing cost	Reduced average borrowing cost from 17% (2003) to 12% (2010)	Reduced avg. cost of borrowing: 46% (2003), 9% (2010)		
Increased liquidity	One of most liquid EM (EMTA surveys)	48% increase in 2003-2010	Grew 8x between 2008-2010 from low base	Trading of benchmark bonds up 3x, 2003-2010

*Examples; non-exhaustive list



NGBMs: Comprehensive but Targeted Approach

- Focus on primary markets
- Use transactions to inform and demonstrate
- Additional challenges due to issuer credit concerns



NGBM Example: East Africa Regional Program

Regulatory Assistance

- New full disclosure issuance framework drafted – in Kenya
- Time taken to approve issues down to 45/60 days from 270 days – Kenya and Tanzania
- New ABS regulations developed – in Kenya & Uganda
- New Prospectus Law in Uganda

Strengthen Market Infrastructure

- Implementation for OTC market structure underway in Kenya and Tanzania
- Laws to facilitate OTC market passed by Kenyan parliament

Capacity Building

- Certification curriculum designed and rolled out
- Securities Industry Training Institute (SITI) established
- 1,400+ participants trained

Regionalization

- Regionalization strategy & road map adopted
- Framework for regional bonds approved by EASRA – draft exposed for public comment in Kenya and Uganda

Transactions Support

- Leveraged US\$ 1.1m from PPIAF to support upstream transaction work for Kenya Airports Authority, Kigali City and Nairobi Water
- Supported first equity linked bond issue in Kenya (US\$22 Mn)
- Supported first Microfinance issue in Tanzania (US\$10 Mn)
- IFC local currency issue in Kenya approved
- Cooperation agreement with Shelter Afrique



G20 Emphasis on LCBMs: Enhances Visibility and IFI Cooperation

G8 Germany	G20 France	G20 Mexico	G20 Russia
Finance for Development	Improve ability of LCBMs to absorb and manage capital flows and avoid capital controls. Develop LCBM Action Plan. (IFA Working Group)	Continue implementation of LCBM Action Plan	Diagnose and further study availability of bond markets to support long term finance, especially for infrastructure

2007

2011

2012

2013



Current Actions Under G20 Umbrella

LCBM Action Plan (AP)

Three pillars of the G20 Action Plan:

1. Improving IFI coordination for technical assistance (TA)
2. Developing a common IFI diagnostic framework
3. Improving availability of data on LCBMs

Diagnostic on LCBMs and Availability of Post-Crisis Long-term Financing

Prepared Diagnostic Umbrella Paper on LT Financing and Background Note on LCBMs:

- ✓ Presented to the G20 Ministers Meeting in February 2013, Moscow

Study Groups for Next Steps

G20 Study Group on “Financing for Investment”:

- ✓ The Study Group will provide a work plan to the G20 Ministers meeting in October 2013

