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3rd Forum on African Debt Management and Bond Markets

**GLOBAL SUPPORT TO DEVELOP LOCAL CURRENCY BOND MARKETS IN EMERGING
MARKET ECONOMIES AND DEVELOPING COUNTRIES**

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This document is circulated as a background paper to Session No. 3 for the 3rd Forum on African Debt Management and Bond Markets, to be held on December 4-5 2008. Questions concerning this document can be addressed to Hans J. Blommestein, Project Manager (hans.blommestein@oecd.org).

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Global support to develop local currency bond markets in emerging market economies and developing countries –

Joint Bundesbank – IMF – World Bank Group
Workshop on Implementing G8 Action Plan

**Third OECD Forum on
African Public Debt Management
Paris, 4-5 December 2008**

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Overview

- **G8 initiative on developing local bond markets in emerging market economies and developing countries**
- **Background and objectives of the workshop**
- **Structure of the workshop**
- **Overview of Presentations**
- **Progress Report**
- **Survey Results**

Overview and structure of the G7/G8 initiative on local currency bond markets

- **Market corrections during 2006 and early 2007 have raised concerns whether Emerging Market Economies have overcome all vulnerabilities which were a main cause of the financial crises in the 1990th**
- **Especially high dependency on short term external finance; currency and maturity mismatches**
- **In addition: future challenges: („new vulnerabilities?“)**
 - Financing global imbalances; absorption of abrupt changes in the direction of global capital flows
 - Ongoing process of institutionalisation of saving, institutional investors use international financial markets with higher intensity than private households; search for yield and for diversification of their portfolios
 - Local bond markets and liberalisation of capital accounts

G8 Action Plan – key recommendations

- 1. Strengthening market infrastructure and public debt management**
- 2. Broadening and diversifying the investor base**
- 3. Developing derivatives and swap markets**
- 4. Broadening the investor base**
- 5. Promoting regional cooperation**
- 6. Developing bond markets in less developed countries, particular Sub-Saharan African Countries**
- 7. Technical assistance**

Implementation Report

- **Cooperation with emerging market economies and developing countries**
- **Public and private sector of these country groups are invited to participate in every stage of implementation**
- **IMF and World Bank are asked to regularly report on the progress of the implementation**
- **Reports should be presented at yearly intervals**
- **G8 Finance Ministers will discuss these reports, if necessary**
- **IMF and World Bank will publish these reports**
- **Future work programmes of other relevant international institutions, countries and market participants should be included**
- **IMF and World Bank could organize international conferences to enhance transparency on international work programmes**

Joint Bundesbank-IMF-World Bank Workshop on Global support to develop local bond markets - Background and objectives

- **Perspective of the first conference: Global support/technical assistance on the fields of recommended actions**
- **Objectives:**
 - Stock taking, contribution to progress report
 - enhance transparency on the global support for developing local bond markets with regard to the work programmes of the main donors and with the perspective of specific needs of emerging market economies and developing countries
 - contribute to enhancing the international network for developing local currency bond markets Participants: IMF, World Bank Group, BIS, OECD, other multilateral development banks, participants of industrial countries, emerging market economies and developing countries

Structure of the workshop

- **Regional structure of the workshop**
- **Session I: EM Asia**
- **Session II: EM Europe**
- **Session III: Latin America**
- **Session IV: Sub-Sahara Africa (I)**
- **Session V: Sub-Sahara Africa (II)**
- **Panel: Main conclusions and priorities for future work programmes**

Session I: EM Asia

- **Asian Development Bank:** Asian Bond Market Initiative (future work programme during next 18 month)
- **Bank of Japan:** Overview of Asian Bond Funds (ABF) and outlook on furthering the development of ABF II
- **World Bank Group:** Global Emerging Markets Local Currency Bond Program (GEMLOC)
- **United States Agency International Development (USAID):** world wide projects and strategies of building capacities and technical assistance

Session II: EM Europe

- **KfW**: Projects in Ukraine, issuances and strategies at local currency bond markets in emerging market economies ...
- **EBRD**: importance of efficient market infrastructure and of complementary markets; own projects in EM Europe
- **Italian Treasury**: developing of public debt management strategies in emerging market economies
- **Clifford Chance Europe**: legal framework, Shariah issuances

Session III: Latin America

- **Interamerican Development Bank (IBRD):** Planned work: Coordination of Bank`s efforts with those of G-8, IMF, World Bank and other multilateral institutions, clear understanding of current situation of domestic bond markets, identification of Technical Assistance needs
- **World Bank Group:** overview of elements and strategies of work programmes in Latin American countries
- **BIS:** Development and relative importance of Latin American domestic debt markets compared with other EM regions
- **IMF:** support to reform pension fund systems in Peru; empirical studies on development of financial markets in Central America, support in developing and strengthening legal framework for mutual funds and development of ABS markets

Session IV: Sub-Saharan African Countries (I)

- **African Financial Market Initiative:** African Bond Fund; developing and broadening financial statistics database in Africa
- **Making Finance Work for Africa (MFW4A):** Objectives – Broadening access to financial services in Africa, strengthening legal and institutional framework; MFW4A: primarily coordinating role, to bring different initiatives together and use synergy effects; platform for common analytical work, intensifying exchange of information
- **World Bank Group:** Efficient Securities Markets Institutional Development (ESMID), Program focused on African Countries and on developing corporate bond markets;
- **African Development Bank:** Overview about development and structure of African Bond Markets, about the broad variety of initiatives and the necessity to coordinate these initiatives

Session V: Sub-Saharan Africa (II):

- **OECD:** inter alia: also in response to G8 Action Plan – initiatives to enhance efficiency of public debt management strategies; OECD database projects with regard to public debt; regional workshops to further efficiency of market infrastructure
- **Institute of International Finance (IIF):** development and structure of capital flows to Sub-Saharan African Countries; domestic debt of SSA countries; fundamental improvements of financial market development; further risks (for example, high dependence on commodity prices; squeeze of global liquidity)
- **Department of international development: (DFID; UK):** strategies projects, in particular in Nigeria
- **Direction Générale du Trésor et de la Politique Économique:** French initiative of developing domestic bond markets in Franc zone

Initiatives and Working Groups on broadening the data base

- **Conference on „Financial Globalisation, vulnerabilities and data needs“, Conference co-hosted by Deutsche Bundesbank and Federal Ministry of Finance in Frankfurt (January 2008)**
- **Working Group on Securities Database (September 2007)**
- **CGFS Working Group**
- **IFC Workshop on „Challenges to Improve international Securities Statistics (March 2008)**
- **ESCB Centralised Securities Database**
- **OECD Database for Africa**
- **African Financial Market Database**
- **Various Working Groups on „Future financial crises and data needs“**

Working Group on Securities Databases

- **Reconvened by IMF proposal; members: BIS; ECB; IMF; World Bank**
- **Some experts from national central banks**
- **Inter alia in response to G8 Action Plan**
- **Objectives and work programme posted on IMF website**
- <http://www.imf.org/external/np/sta/wgsd/>

Working Group on Securities Databases

Work Programme and schedule:

- Preparing a Handbook on Securities Statistics
- Objectives:
 - Provide guidelines for the presentation of aggregate debt securities statistics that are relevant, coherent, and – in particular – international comparable
 - Encourage the production of securities statistics to assist in monetary policy and monitoring, and financial stability analysis

Working Group on Securities Databases

Time table:

July – October 08:

Preparing background documents for different Review Group Meetings
Agreement on draft text

November – December 08

Prepare first draft of Handbook

January 09

Review first draft

February 09

Send first draft to Working Group and Review Group
Open comment period – published on IMF Website for public comment

February- March 09

Receive comments on first draft
Prepare second draft

April 09

Finalise second draft of Handbook

Contributions of Deutsche Bundesbank

- I. High level workshop (May 2007) on Developing local bond markets in Emerging Market Economies and Developing Countries
 - Results have contributed to G8 Action Plan
 - http://www.bundesbank.de/vfz/vfz_konferenzen_2007.en.php#high

- II. Conference on Financial Globalisation, Vulnerabilities and Data needs (January 2008)
 - Results have contributed to the Future Work Programme for broadening the database
 - And in particular for the reconvened Working Group in Securities Databases
 - http://www.bundesbank.de/presse/presse_aktuell.en.php

- III. International Workshop on "Implementing G8 Action Plan - Global support to develop local bond markets in emerging market economies and developing countries" (September 2008)
 - Results should contribute to the first progress report of IMF and World Bank

Progress report

- **Results of this workshop contribute to preparing the first annual progress report**
- **Progress report will be delivered to G7/G8 ...**
- **... providing an overview of main future work programmes of IMF, World Bank, other multilateral development banks and countries**

Survey

- **For preparing this workshop and the first annual report, IMF and World Bank Group and Bundesbank collected a survey**
- **... matrix of current and future priorities in work programmes of different institutions and countries**
- **Structure of the survey follows the 7 key recommendations of the G8 Action Plan**
- **18 Surveys of 22 participating countries and institutions**

Survey – participating countries and institutions

G7

Germany:	Federal Ministry of Finance KfW
Japan	Ministry of Finance Bank of Japan
UK	DFID
US	US Treasury USAID

Other:

Australia	Treasury Reserve Bank AOFM AusAID
Sweden	SIDA

Development Banks

**ADB
IaDB
AfDB**

Multilaterals/others

**OECD
IMF
World Bank Group**

Survey Results

*on TA work, studies performed, or others contributing
to the development of local bond markets in
emerging market economies and developing countries*

- Workshop on Implementing the G8 Action Plan
- **September 22-23, 2008**

East Asia Pacific (EAP)



	TA	Transaction	Other
Market infrastructure and debt management	US ADB (ABMI) WB Treasury (Indonesia, Mongolia) Japan MoF (Vietnam) IMF (Thailand, Korea, Indonesia)	BoJ (Asia Bond Fund 2)	Australia (RBA, Treasury, Financial Services Institution of Australia)
Investor base	US ADB (ABMI)	KfW (Malaysia, Thailand) BoJ (ABF2)	Australia (RBA)
Derivative and swap markets	ADB (ABMI)		
Database	ADB (ABMI)		Australia
Regional initiatives	KfW, ADB Japan MoF (ABMI)	BoJ (ABF1)	Australia (RBA)
Less developed countries			
Other			Australia (RBA) ADB, BoJ (ABF2)

South Asia (SAS)

	TA	Transaction	Other
Market infrastructure and debt management	ADB (India, Sri Lanka) WB Treasury (India, Pakistan)	ADB (India, Sri Lanka) WB Treasury, FPD (India)	
Investor base	ADB (India, Sri Lanka) WB (India)	ADB (India, Sri Lanka)	
Derivative and swap markets	WB and IFC (India)		
Database	WB (India)		
Regional initiatives	WB South Asia (Bangladesh, India, Nepal, Pakistan, Sri Lanka)		
Less developed countries		USAID (India)	
Other			

Latin America (LAC)

	TA	Transaction	Other
Market infrastructure and debt management	US* WB Treasury** WB Securities*** Markets WB LAC (Brazil); IMF****	IaDB (Mexico, Colombia, Costa Rica, Uruguay, Peru) IFC Treasury (Brazil)	
Investor base	IaDB (Chile), US (same as above) IMF (Peru, Brazil)		
Derivative and swap markets	IMF (Colombia)		
Database			
Regional initiatives	IaDB (Central America, Caribbean, LAC) IMF (Regional Central America)		
Less developed countries			
Other	WB Securities Markets (Brazil)		

*Costa Rica, Dominican Republic, Honduras, Nicaragua, Paraguay; **Honduras, Jamaica, Chile, Colombia, Costa Rica, Dominican Republic, Guatemala, El Salvador, Ecuador, Mexico, Panama, Peru, Brazil; ***Brazil, Colombia, Panama, Uruguay, Ecuador, El Salvador ****Peru, Central America, Brazil, Paraguay, Jamaica

Europe and Central Asia (ECA)

	TA	Transaction	Other
Market infrastructure and debt management	KfW (Serbia, Ukraine) US* Germany (Ukraine) WB Treasury** WB Housing Finance (Turkey) WB CMDP (Russia) WB ECA (Balkans); IMF (Montenegro)		
Investor base	KfW (same as above) US (same as above) WB ECA (Balkans) IMF (Hungary)		
Derivative and swap markets			
Database			
Regional initiatives			
Less developed countries			
Other	KfW (Russia) Germany (Serbia)		

*Albania, Afghanistan, Bosnia, Georgia, Kosovo, Ukraine, Moldova, Tajikistan, Serbia;

**Belarus, Armenia, Bosnia/Herzegovina, Macedonia, Romania, Serbia, Turkey, Ukraine

Middle East and North Africa (MENA)

	TA	Transaction	Other
Market infrastructure and debt management	KfW (Egypt) US* WB Treasury** WB GCC (UAE, Qatar, Oman)	ADB (Pakistan)	
Investor base	KfW (same as above) US (same as above)	ADB (same as above)	
Derivative and swap markets			
Database			
Regional initiatives			
Less developed countries			
Other			

*UAE, Oman, Yemen, Qatar, Jordan, Algeria; **Egypt, Jordan, UAE, Lebanon

Sub-Saharan Africa (SSA)

	TA	Transaction	Other
Market infrastructure and debt management	KfW (Ghana, Nigeria) US* SIDA (ESMID, AFRITAC) WB Treasury (Nigeria, Swaziland)	AfDB (African Currency Issuance Initiative)	OECD
Investor base	US (same as above) SIDA (ESMID)	KfW (South Africa) AfDB (AFMI)	OECD
Derivative and swap markets	AfDB (AFMI)		
Database	AfDB (AFMI) SIDA (ESMID)		OECD
Regional initiatives	AfDB (AFMI) SIDA (ESMID)	WB ESMID	SIDA (OECD)
Less developed countries	US (same as above) AfDB (AFMI) SIDA (ESMID, AFRITAC)	WB ESMID	IMF (Central and West Africa)
Other			OECD 27

*Ghana, Kenya, Rwanda, Tanzania, Uganda, Liberia, Nigeria, Zambia, Malawi.

Global

	TA	Transaction	Other
Market infrastructure and debt management	US (GDIM) 60 countries IMF (FSAP)		OECD WB Treasury
Investor base	IMF	KfW	OECD/World Bank/IMF
Derivative and swap markets			IFC IMF
Database			WB Gemloc (GEMX) IMF (WGSD)
Regional initiatives	US (GDIM)		
Less developed countries	US (GDIM) USAID WB (DeMPA-18 countries, MTDS)		WB (DeMPA-18 countries, MTDS)
Other			Australia (RBA) IMF/OECD/WB²⁸