



*Building Financing,
Investment,
and Risk
Management
Opportunities in
Emerging Markets*

Securities Markets





Why Local Securities Markets?

Local securities markets play a vital role in a country's financial system. They improve risk management capabilities, access to domestic and foreign financing, pricing signals, and corporate governance. Current trends, particularly recent financial sector crises, growth in domestic institutional investors, and reduced capital flows to emerging market countries increase the need to support their growth and development:

- The Asia and other crises highlighted why long term, local currency projects should be financed with long term local currency funds—to reduce interest rate, currency, and refunding risk. These risks can cause destabilizing consequences that can seriously harm a country's economic growth and stability.
- Domestic institutional investors are growing in emerging market countries after years of pension and insurance reform. They need long term local currency assets or may face portfolio mismatches that can become a source of risk. Investing in local securities markets can also improve their investment returns.
- Foreign capital flows to emerging market countries, particularly for portfolio investments, have fallen and are under continued threat. Well-functioning domestic securities markets can mobilize increased domestic financing for local borrowers by offering new types of investment vehicles. Domestic sources of finance can be more stable than their foreign counterparts.

These trends complement more traditional reasons for developing local securities markets, such as price signaling and corporate governance. Prices of newly issued and traded securities provide valuable information for a range of economic purposes. The markets also give investors a vehicle for expressing their “views” on a borrower, influencing its cost of capital, market access, and corporate governance.

Objectives & Challenges

IFC: Who We Are

IFC has played a leading role in building local securities markets for over 30 years. We have assisted governments and private sector entities throughout Africa, Asia, Latin America, the transition economies, and the Middle East.

IFC helps create appropriate financing and investment vehicles, sound policies, efficient operating infrastructure, and skilled intermediaries—and in turn markets that issuers and investors choose to use because they offer economic advantages, risk management benefits, and a credible transaction environment.

Our focus today is on building local bond markets, primarily for corporate issuers. We also support aspects of government bond market development because it is so fundamental for pricing and trading corporate bonds. IFC continues to assist countries in building and strengthening their equity markets in selected cases.

Solutions Solutions Solutions

What We do

IFC supports securities market regulators, operating infrastructure, and market participants with a mix of advice, capital, and access to best-practices and practitioners.

Our six tools of assistance are:

- **Preparing feasibility studies:** IFC works with governments and the private sector to identify needed markets, products, and institutions, current obstacles to developing them, and steps to move forward.
- **Creating enabling environments:** IFC brings a market participant's perspective to governments on creating sound policies and regulations to foster development of well functioning securities markets. Our short-term targeted projects complement the World Bank's more systemic work in this area.

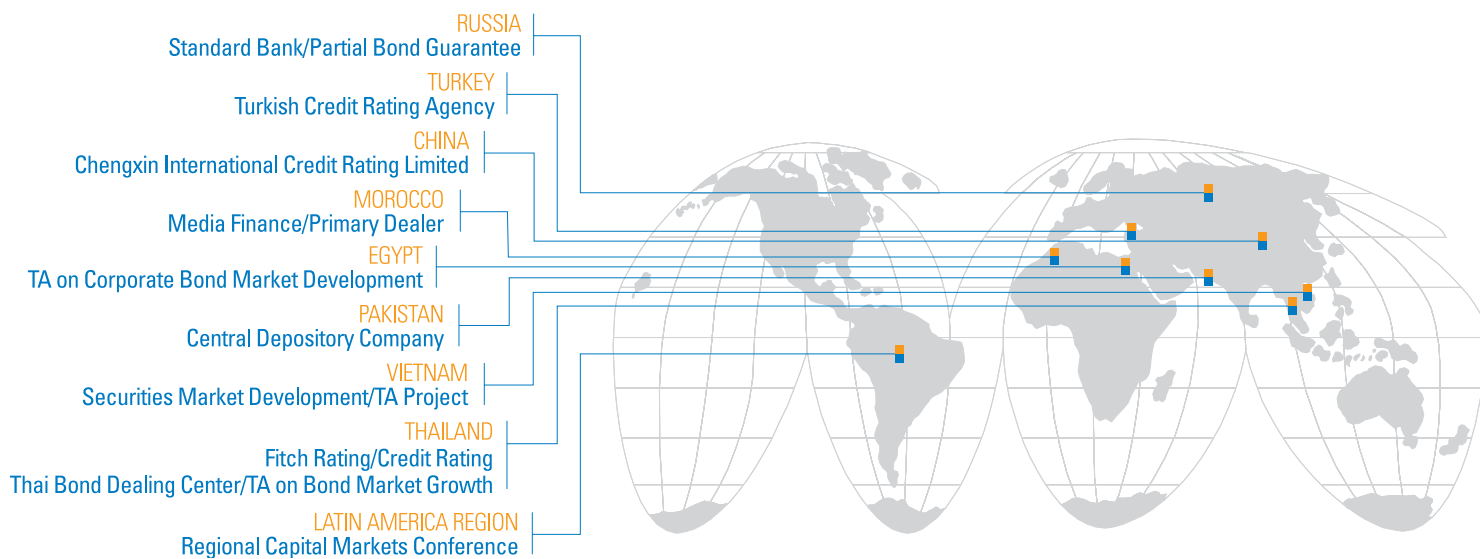
Know-how

Support

Invest

Capital





- Investing in market institutions:** Securities intermediaries need capital and know-how. IFC invests in intermediaries (broker-dealers, investment banks) and infrastructure for primary and secondary market activities (credit rating agencies, bond trading entities). Technical assistance is integrated into projects as required.
- Supporting new issuance:** Expanding the number of firms that can issue in local securities markets is one of the biggest challenges facing these markets. Investors often want to buy securities from only the best quality, best known names. IFC helps expand market access to a wider range of financial sector borrowers, and increase the supply of quality securities. Partial bond guarantees (structured by IFC’s Treasury Department) enable new financial institutions to access local debt markets, and can increase issue size and maturity as well. IFC also advises emerging market clients on securitization transactions and often acts as lead investor.
- Catalyzing third party investments and know-how:** Securities market projects often require financing and know-how beyond what IFC can provide. IFC catalyzes world-class institutions and experts to supplement our financial contribution and technical expertise.
- Hosting seminars and conferences:** IFC hosts seminars and conferences to share our insights and those of the global securities market industry into global best practices and lessons learned from emerging market experience.

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