



# World Bank Group

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## AT A GLANCE:

- **What is the Gemloc Program?** *Gemloc* combines the comparative advantage of the World Bank Group and the private sector to help develop local currency bond markets and to increase their investability. It has three separate but complementary parts: (1) a private investment manager that develops and manages investment strategies to promote institutional investment in emerging market local currency bonds; (2) a new private sector-led global index (GEMX) that tracks emerging market local currency bonds that meet market size and investability criteria; and (3) advisory services provided by the World Bank to strengthen local bond markets in emerging economies to help enhance their investability and attract new investments.
- **Why is Gemloc being launched now?** *Gemloc* was developed in response to the strong need, expressed by numerous governments, to improve local bond markets to support financial development and stability. The G8 decision to make local bond market development a core focus of its policy agenda emphasized their importance. Emerging market debt has shifted from predominantly external debt to now 70% local currency debt. But institutional investors currently only invest a small fraction of emerging market assets in local currency debt. Only a small component of this asset class is benchmarked by leading market indices. Many local currency investments are made offshore and through derivatives, which are not supporting market development. Many local markets have serious restrictions on investability, such as red tape, controls, taxes, weak infrastructure, and inefficient debt management. *Gemloc* focuses on improving investability and enhancing local market liquidity. It will also support the growth and development of corporate bond markets and facilitate infrastructure, mortgage, and asset-backed financing.
- **Where can the World Bank Group add value?** *Gemloc* offers synergies between market reforms, an innovative index, and new investment flows. World Bank advisory services, through tailored country programs and peer group dialogues, will help in making local bond markets more attractive to long-term stable investment, including from South-South investors. IFC cooperated with the private sector to develop a transparent new index. The initiative can help transform emerging local currency bond markets into a mainstream asset class.
- **When did Gemloc become operational?** A new index, “GEMX”, was developed by *Markit*, a leading index provider, in cooperation with IFC in April 2008. Inclusion in GEMX is based on market size and a set of investability indicators developed by *Crisil*, the Indian-based affiliate of S&P, in cooperation with the World Bank that evaluates market aspects such as taxation, accessibility, liquidity and infrastructure. *Pimco*, a leading fixed income investment management firm, has been selected to develop and manage investment strategies. The World Bank will provide advisory services to help develop local markets, focused on countries included, and several expected to be included, in the GEMX index, and which show a strong commitment for reform. The *Gemloc* advisory services became operational with a successful kick-off conference in May 2008.
- **How does Gemloc enhance financial stability?** Development of local bond markets supports economic growth with stability, helping to lower the cost of borrowing and reduce financing and investment mismatches and the risks they create. A stronger bond market can support development and enhance a country’s resilience to shocks.

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