The demand for local currency bond markets remains strong and continues to grow. As countries grow economically, bond markets are increasingly needed to finance key areas, such as housing and infrastructure. The World Bank Group (WBG), currently through the Securities Markets Group (SMG) and earlier through its forerunners (jointly referred to as “WBG”), has a long history of advising emerging market countries on developing their local markets and providing intellectual leadership on trends, issues, and operations related to securities market development. The SMG is a joint IFC/World Bank unit that works closely with other IFC/World Bank departments and programs, as well as other relevant institutions. The work focuses primarily on government and non-government bond markets, through its two programs: (1) the Global Emerging Markets Local Currency Bond Program (Gemloc); and (2) the Efficient Securities Markets Institutional Development Program (ESMID). By improving local bond markets and providing long-term local currency financing and investment vehicles, these two programs help reduce financial sector risk, improve financial sector diversification, and keep funds flowing when banks are not appropriate or available for financing or investment. The work of the WBG in bond market development involves operations around the world, ranging from single country to regional and global projects.

**Past and Current Projects**

- **Latin America & the Caribbean**
  - Ecuador
  - El Salvador
  - Brazil
  - Chile
  - Colombia
  - Costa Rica
  - Dominican Rep.
  - Guatemala
  - Honduras
  - Jamaica
  - Mexico
  - Panama
  - Uruguay

- **Middle East & North Africa**
  - Bahrain
  - Egypt
  - Jordan
  - Morocco
  - Oman
  - Qatar
  - Saudi Arabia
  - UAE

- **Europe & Central Asia**
  - Armenia
  - Croatia
  - Georgia
  - Kazakhstan
  - Lithuania
  - Poland
  - Romania
  - Russia
  - Serbia
  - Ukraine

- **Sub-Saharan Africa**
  - Kenya
  - Mozambique
  - Nigeria
  - Rwanda
  - Tanzania
  - Uganda
  - Zambia

- **East Asia & Pacific**
  - China
  - Indonesia
  - Mongolia
  - Philippines
  - South Korea
  - Thailand
  - Vietnam

- **South Asia**
  - Bangladesh
  - India
  - Nepal
  - Pakistan
  - Sri Lanka
GEMLOC

The Global Emerging Markets Local Currency Bond Program (Gemloc) supports development of local currency bond markets in emerging market countries to increase their investability and attract new domestic and international investment. It consists of three separate but complementary parts: (1) a private sector investment manager (PIMCO) that promotes investment in local currency bonds; (2) a global emerging markets local currency bond index (GeMX) that weights emerging market economies based on their market size and investability; and (3) advisory services provided by the WBG to strengthen local bond markets through country-specific programs, peer group dialogues, and research on relevant topics.

Gemloc Advisory Services Program

Gemloc Advisory Services was officially launched at a conference held in May 2008, attended by policymakers and securities regulators from 20 emerging market countries, as well as capital market specialists from multilateral, academic, and investment consulting institutions.

The Advisory Services (AS) program focuses on all aspects of government bond market development, drawing on the World Bank Group’s long track record in domestic debt market development and debt management. The program consists of the following three components:

- **Country-specific work**: Provides technical support tailored to individual country needs to address constraints in a wide variety of government bond market development areas, including building:
  - Efficient Money and Primary Markets
  - Active Secondary Markets
  - Access to a Diversified Investor Base

- **Cross-country dialogue**: Brings together countries with similar reform agendas to share challenges and discuss policy actions in a fast and cost-effective way. Discussions are facilitated by industry experts and complemented with surveys and post-discussion analyses. Different groups have been formed to select topics and tailor discussions based on specific sets of needs.

- **Applied research**: Provides practical empirically-based research on developing local currency bond markets through working papers, short notes, and handbooks, written by leading academics and practitioners.

The three components of Gemloc Advisory Services interact in a virtuous cycle, reinforcing and informing each other and, as a result, enhancing the overall quality and impact of the program. For example, lessons and conclusions drawn from cross-country dialogue and applied research can be applied to advisory services provided under country-specific work. Frequent interactions with client countries during cross-country dialogue and knowledge management events offer further opportunities for engagement through country-specific debt market reform programs.

Advisory Services Survey

A survey was conducted of 48 institutions (ministries of finance, central banks, and securities regulators) representing 24 emerging market countries to identify key obstacles to issuing, investing in, and trading government bonds in the countries surveyed and determine their respective advisory services needs.

The survey is an important element of the AS program. It allowed the AS team to map bond market development priorities of
different countries, initiatives already underway, and types of assistance desired by them. As such, the Gemloc AS team is able to tailor assistance to client country needs and context. For example, the survey revealed a high demand for peer group dialogues on relevant bond market development topics, as a result of which two peer groups have already been launched and have held four discussions on various topics.

**Country-Specific Work**

Gemloc AS is currently working in four countries – Egypt, Nigeria, Costa Rica and Uruguay – on strengthening different aspects of the government bond market. The following details illustrate the work and concrete results to date in Egypt, the first country to participate in the program. Projects in Nigeria and Costa Rica are also at the implementation stage, while Uruguay is more nascent. Targeted and short-term assistance has been provided to Brazil and Morocco, with high potential for longer-term future engagement as a result.

**Egypt**

- Produced comprehensive needs assessments, which identified bottlenecks for bond market development and proposed actionable solutions, including improving (1) money markets (use of monetary policy instruments, repurchase markets), (2) primary markets (issuance policy and primary dealers’ rules), (3) organization of secondary markets (trading platforms and over-the-counter (OTC) markets, price dissemination, and market maker rules and incentives), and (4) clearing and settlement (C&S) (upgrading and harmonizing C&S for Treasury bills (T-bills) and Treasury bonds (T-bonds), automating C&S, etc.).

- Produced detailed action plans for implementing the recommendations, proposing design, sequencing, and coordinating actions across different institutions.

Operations are financed through a Reimbursable Technical Assistance agreement between the government of Egypt and the World Bank for the implementation of a 3-year action plan.

- To date, the AS team has provided assistance to improve the primary issuance calendar and launch a benchmarking strategy with regular re-openings for 12-month T-bills and 3-, 5- and 7-year T-bonds to help build medium-term benchmarks.

- The AS team also: designed a comprehensive framework for revised Primary Dealer’s scheme and for repo market (including handbook for market practices and a draft master repo agreement); provided support on Securities Clearing and Settlement infrastructure (road map for most pressing upgrades to settle T-Bonds); compiled a document on strategic decisions to improve C&S for T-Bills.

- Early results include (1) reduction in price dispersion in primary markets, (2) lengthening of the yield curve beyond 12 months to seven years, and (3) increase in size of T-bonds outstanding to enhance liquidity.

**Cross-Country Dialogue**

Apart from allowing countries to share lessons, best practices, and experiences with their peers around the world, the Peer Group Dialogues (PGD) enrich the knowledge and resources of the AS team, which it can apply in its country-specific work. To date, two peer groups have been launched to include 18 emerging bond markets.

- The pilot peer group includes countries among the ten largest emerging bond markets and has met thrice to exchange experiences and discuss policy actions pertaining to (1) the impact of the financial crisis on domestic debt
markets, (2) primary dealers’ experience and practices in the financial crisis, and (3) electronic trading platforms and how to avoid fragmenting market information.

• In response to positive feedback and expanding interest in PGD, a second peer group was formed to include other emerging bond markets. The second peer group has met once so far, with the participation of nine countries, to discuss how to build an effective primary dealer system, a topic in which client countries had expressed high interest.

• Materials from the web meetings and post-discussion analyses, such as the survey analysis on non-competitive subscriptions, are disseminated via the Gemloc AS website.

Applied Research

To date, several research papers and notes have been prepared on key bond market topics by leading academics, researchers and staff (see website: www.gemloc.org), including:

— “A Virtuous Cycle in Local Currency Bond Markets?”
— “Pension Funds and Capital Market Development: How Much Bang for the Buck?”
— “Rationale and Obstacles for the Development of Bond Markets in Emerging Economies”
— “Unlocking Debt Market Development in Times of Crisis”
— Primary Dealer Systems (forthcoming handbook)
— Liability Management (forthcoming handbook)
— Repo Markets (forthcoming handbook)
ESMID PROGRAM

The Efficient Securities Markets Institutional Development (ESMID) program is a WBG operation that focuses on developing non-government bond markets to help finance sectors with high developmental impact, such as infrastructure, housing, and microfinance.

ESMID employs an innovative approach for bond market development that links efforts to strengthen enabling environments with supporting individual bond transactions:

- Enabling environment advice is targeted at strengthening the regulatory framework, market infrastructure, and market participants as well as regional markets, where appropriate.

- Support to demonstration transactions helps pave the way for other bond issues to come to market.

- By integrating enabling environment assistance with transactions support, the advisory team is able to gain better understanding of specific challenges impeding market development and can incorporate this knowledge into more informed and targeted policy assistance.

ESMID currently has two pilot programs in Sub-Saharan Africa: East Africa (Kenya, Rwanda, Tanzania, and Uganda) has been operating for 2 years; and Nigeria was more recently launched. The two pilot programs are funded by a US$5 million grant from the Swedish International Development Cooperation Agency.

In East Africa:

- ESMID is working with central banks, securities regulators, stock exchanges and other stakeholders to simplify regulations and procedures for issuing, investing in, and trading bonds; strengthen market infrastructure; build capacity of market participants; and facilitate the regionalization of securities markets.

- ESMID has achieved widespread local and regional support, having reached out to over 700 local actors and cultivated strong working relationships with key stakeholders, including senior-level regulators and policy makers.

- ESMID has become a recognized authority on capital market development and is playing a key role in the policy dialogue on financial sector reforms.

The following are some of the key short-term achievements of the East Africa program to date:

**Comprehensive Assessments**

- Produced 20 comprehensive diagnostic assessments, detailed recommendations, and road maps on developing and integrating East Africa's securities markets.

**Market Structure**

- ESMID is supporting the implementation of recommendations to adopt a more flexible approval process for bond issuance,
flexible secondary market framework that allows OTC trading of bonds, improving efficiency of clearing and settlement, and promoting transparency in the bond markets.

**Capacity Building**

- Facilitated the establishment of a regional Securities Industry Training Institute to coordinate training throughout the four East African countries.

- Piloted and trained trainers for a securities markets training curriculum comprising three courses and five seminars, including courses that will be required for licensing.

- Over 500 market participants have attended courses in Kenya, Tanzania, Uganda, and Rwanda.

- Working with regulators to provide a framework for licensing of market participants in the region.

**Road Map for the Regionalization of the Capital Markets**

- ESMID supported the development of a road map for the regionalization of capital markets, which is to be formally adopted by the East African Community (EAC), and is working with the stakeholders to implement key components of the road map, with particular focus on infrastructure.

**Transactions Support**

- ESMID has built a pipeline of over US$650 million of potential transactions and established a strong collaboration to support a number of key infrastructure transactions. One example is the ESMID-supported private placement bond issue that raised US$20 million to finance plant expansion for a local cement company in East Africa.

- The program has also been pro-active in providing support for first-time bond issues by local municipal utilities and other infrastructure-related issuers, such as for the Nairobi Water and Sewage Corp, the City of Kigali, and the Kenya Airports Authority.
OTHER WBG OPERATIONS

The WBG has a long track record of providing advisory services for developing local debt markets. Assessments, both comprehensive and targeted, have been done covering diagnostics, recommendations, and road maps for reforms, in over 25 countries worldwide, including Colombia, Costa Rica, Ukraine, Tunisia, Kenya, Pakistan, Indonesia, Lebanon, Romania, Morocco and Peru, as well as, more recently, Egypt and Nigeria. Reforms include, among others, improvements in a range of market regulations, issuance procedures and programs, repurchase markets, clearing & settlement, and prudential regulations for investors.

In addition to reform recommendations and implementation support, the WBG has provided training on debt strategy implementation to more than 120 policy makers, mainly from debt management offices, representing over 30 countries. The training course covers instrument choice, benchmark building techniques, funding in domestic and international markets, and use of derivatives for debt management.
KNOWLEDGE MANAGEMENT

The WBG has served as a thought leader on a variety of bond market development topics through production of numerous publications and organization of regular events. Among others, the WBG:

- Developed and published sound principles for debt management and government debt market development that became international references amongst policy makers. Examples:

- Disseminated Lessons Learned from Debt Market Development Programs

- Produced books and papers that provide an in-depth analysis of a particular bond market topic or a regional perspective on bond market development, including:

- Is preparing short policy notes on the need for local currency bond market development in light of the financial crisis, covering the following topics:
  - Crisis implications for emerging market bond markets
  - Value of securitization for emerging markets and lessons from the crisis
  - Regulatory failures in the US and lessons for emerging market securities regulators

- Leads, together with other multilateral institutions, the debate on bond market development through organization of events that bring together practitioners and policy makers from around the world. Examples include:
  - Annual OECD-WB-IMF Global Bond Forum
  - World Bank Sovereign Debt Management Forum
  - Annual G8 Bond Market Workshop
  - Securities Markets Annual Conference