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THE WORLD BANK



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World Bank Group

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GEMLOC

ADVISORY SERVICES

Developing local currency bond markets
in emerging economies



A WORLD BANK INITIATIVE

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The Gemloc Program

The Global Emerging Markets Local Currency Bond Program (Gemloc) is a World Bank Group initiative to help emerging market economies develop their local currency bond markets. Strengthening these markets can produce substantial benefits for development and stability. Broader and deeper local bond markets enable development of longer-term local currency financial products critical for investment and economic growth. Deeper and more liquid local bond markets help firms borrow at lower cost and better manage their risk, contributing to stability.

The Gemloc Program aims to enhance the investability of local bond markets, attract long-term investments, and transform these markets into a mainstream asset class. Some specific objectives:

- ▶ Encourage policy reforms in local bond markets
- ▶ Provide tailored advisory services
- ▶ Develop a new broad index and investability criteria
- ▶ Build longer-term liquid, tradable domestic bonds
- ▶ Create market-based incentives for new investment
- ▶ Enable reserve managers to diversify investments
- ▶ Open new markets for global and local institutional investors
- ▶ Support new local currency bond products

GEMLOC HAS THREE COMPONENTS

- 1 A private sector investment manager to develop and manage investment strategies to promote investment in emerging market local currency bonds
- 2 A new emerging markets local currency bond index
- 3 Advisory services to help countries meet the goals of policy reform and enhanced market infrastructure for local bond markets

To achieve its objectives, the Gemloc Program combines the unique capabilities and innovative thinking of the World Bank Group with the skills and capital of the private sector. The value proposition comes from three aspects: A private sector investment manager that will promote institutional investments in local currency bonds of emerging markets. A new private-sector provided bond index linked to investability indicators will create a benchmark and transparent targets for this strategic asset class. And advisory services provided by the World Bank for up to 40 low- and middle-income countries will enhance their local market investability, leading to higher index weights, and more stable long-term investment flows.



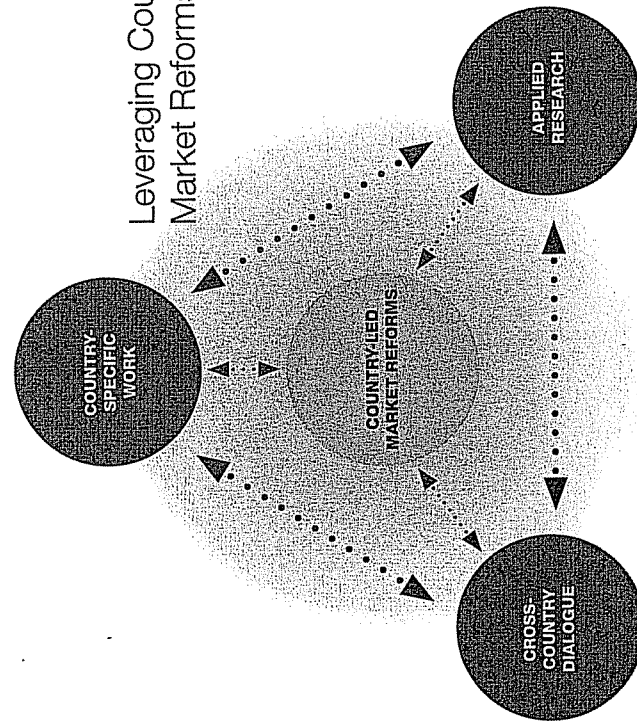
Advisory Services Approach

Gemloc's advisory services aim to establish a clear link between policy reform and investment flows. The process is guided by client demand, domestic market size, and degree of investability.

The advisory services approach, centered on country-specific work, cross-country dialogue, and applied research, aims to support:

- ▶ *Assessments of tradeoffs.* Most policy decisions relating to debt markets require tradeoffs. Their impact on macroeconomic and financial stability needs to be assessed.
- ▶ *Flexibility in reform design.* Different countries have debt markets at different stages of development. Advisory services must be tailored to each country's needs.
- ▶ *Dissemination of experience.* Some countries have attempted, with varying success, to develop local currency bond markets. The lessons of these experiences need to be collected, disseminated, and drawn on for future advisory services programs (see chart).

Leveraging Country-Led Market Reforms



Activities and Products

The advisory services program includes activities and products designed to promote synergies, consensus building, high-quality technical support, and country ownership of debt market reforms.

COUNTRY-SPECIFIC WORK

Gemloc addresses the needs of countries through a range of products:

- ▶ *Needs assessments and action plans*—working with clients to develop a road map for debt market reforms based on international best practice and tailored to the country's specific needs.
- ▶ *Reform implementation oversight*—advising and supporting clients in implementing reforms and assuring the quality of outcomes.

CROSS-COUNTRY DIALOGUE

Countries often face similar issues and tradeoffs in implementing debt market reforms and may benefit from the exchange of experiences. The advisory services program supports such exchange through:

- ▶ *Peer country dialogue*—bringing together countries with similar reform agendas in tailored technical workshops guided by experts and facilitating the exchange of insights and ideas from country experiences.
- ▶ *Case study notes*—disseminating to a broader audience lessons from peer country experiences and dialogues.

APPLIED RESEARCH AND PUBLICATIONS

Practical, empirically based research on key elements of developing local currency bond markets is fundamental to Gemloc's advisory services. Such research informs and provides insights into the most appropriate reforms and developments. Findings are presented in formats accessible to policy makers and practitioners:

- ▶ *Working paper series*—covering macro and micro issues that affect the development of local bond markets, drawing on empirical research and country-specific work.
- ▶ *Short notes*—summarizing the most relevant conclusions of applied research and country-specific work.

TECHNICAL TRAINING

Capacity building is key to promoting country ownership of reforms and assuring quality in their implementation. Gemloc helps build capacity through:

- ▶ *Training workshops*—addressing different topics and layers of decision making. Background study material is produced for each workshop in the form of presentations, technical notes, and guidelines on reform.

Scope of Advisory Services

Gemloc's advisory services in developing local currency bond markets includes a wide range of specialty areas:

MACRO AND MICRO INTERACTIONS AND TRADEOFFS

- ▶ Capital controls, excess liquidity and convertibility
- ▶ Market taxation structure and financial neutrality

PRIMARY MARKETS

- ▶ Debt management strategy
- ▶ Issuance policy
- ▶ Placement mechanisms and organization

MONEY MARKETS

- ▶ Repo markets
- ▶ Operational liquidity management

SECONDARY AND DERIVATIVES MARKETS

- ▶ Exchange and OTC markets
- ▶ Interactions between markets and development sequence
- ▶ Valuation schemes

PARTICIPANTS AND INVESTOR BASE

- ▶ Strategies for diversification
- ▶ Prudential regulations

CUSTODY, CLEARANCE, AND SETTLEMENT

- ▶ Local and international central securities depositories
- ▶ Risk management upgrades

REGULATIONS FOR DEBT MARKETS

- ▶ Systemic risk and investor protection
- ▶ Enforcement capabilities

Team

The Gemloc advisory services team is made up of World Bank experts who coordinate the program activities, working in collaboration with countries and drawing on a wide network of experts, academics, and consultants.

World Bank experts work under the guidance of the Gemloc Advisory Services Steering Committee, formed by World Bank financial sector leaders and cochaired by the Corporate Governance and Capital Markets Department and the Banking and Debt Management Department.

For more information on Gemloc advisory services, e-mail gemlocia@worldbank.org or contact:

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