

TECHNICAL ASSISTANCE COMPLETION REPORT

Division : SEFM

TA No., Country and Name TA 6298-REG: Supporting Enhanced Cooperation Among Southeast Asian Equity Markets			Amount Approved:\$500,000 Revised Amount:\$500,000	
Executing Agency: Asian Development Bank		Source of Funding: TASF	Amount Undisbursed: \$24,183	Amount Utilized: \$475,817
TA Approval Date:	TA Signing Date:	Fielding of First Consultant(s):	TA Completion Date Original:30 Nov 2006	Actual: 31 Oct 2008
22 Dec 2005	22 Dec 2005	10 Oct 2006	Account Closing Date Original:30 Nov 2006	Actual:28 Feb 2009

Description

Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand (hereinafter referred to as "participating countries") through the ASEAN Secretariat requested Asian Development Bank (ADB) to support enhanced cooperation amongst the equity markets in the region, specifically by promoting fair and equitable access to capital in the region through greater cross-border cooperation. Cross-border collaboration among regional capital markets is one of the four areas of cooperation under the ASEAN Roadmap for Financial and Monetary Integration.

Although the region's capital markets have made significant progress since the 1997 crisis, several impediments remain including limited access to capital due to small size of equity markets, market fragmentation and lack of effective cooperation. These impediments coupled with the realization that well functioning capital markets are important for strong and sustainable economic growth underpinned the need for this Technical Assistance (TA). The TA complemented other ADB initiatives in developing the capital markets in Southeast Asia.¹

Expected Impact, Outcome and Outputs

The expected impact of the TA was more efficient capital raising, mobilization and distribution of funds within the region. The outcome was enhanced cooperation among regional capital markets. There were four outputs specified in the design and monitoring framework (DMF). The first three consisted of i) survey of supply and demand for regional equity products; ii) review of initiatives and actions to address legal, regulatory and supervisory constraints to cross-border offering; and iii) review of frameworks for cross border enforcement and dispute resolution. These three outputs culminated in the final output which is iv) new initiatives and actions by participating countries to enhance regional equity market cooperation.

Evaluation of TA Design

The TA's main objective is to support the development of Southeast Asian equity markets. Although the objective is broad, it is still appropriate given that there is much scope for improvement in the region's equity markets. Several changes were made in the design to strengthen the scope of the TA. Specifically, In March 2006, at the request of the ASEAN Task Force to Explore Alliances and Linkages Among Securities Market (Task Force), the studies proposed in the TA were expanded to include a review of the existing clearance and settlement infrastructure. Vietnam had also requested to be included in the TA, in addition to the original six participating countries.

In June 2006, the approach for TA implementation was revised to incorporate three stages; i) stock-take of stock market readiness to implement reforms with the overall aim of regional integration, ii) conferences and workshops to assess findings in stage one and to identify priority areas of cooperation and reforms, and iii) preparation of report for consideration at the highest policy levels. A second component was added to the TA design, International Organization of Securities Commissions (IOSCO) Multilateral MOU. This is based on the request from regulators of Brunei, Philippines and Vietnam to support the full implementation of the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and Exchange of Information (MMOU). These changes strengthened the scope of the TA and increased ownership of the ASEAN member countries. However, the changes also reflect potentially inadequate consultation and engagement at the design and processing stage.

Delivery of Inputs and Conduct of Activities

Terms of Reference (TOR) and Consultants' Performance:

The TOR for the consultants were adequate and required specific knowledge, skills and experience in the respective areas. In July 2006, a consulting firm was engaged using single source selection instead of individual consultants as originally intended. The use of single source selection method is appropriate given the complexity of the TA and the

¹ Previous TAs to develop capital markets in Southeast Asia includes, ADB. 2001. Technical Assistance for Study on Asian Financial Markets (TA 5985-REG, \$750,000); ADB. 2005. Technical Assistance for ASEAN + 3 Asian Bond Market Initiative (TA 6244-REG, \$400,000).

need for specific skills and experience to work across jurisdictions in ASEAN. In addition to the firm, a short term consultant/resource person was engaged to provide administrative support for the final workshop.

The firm (Centennial Group) submitted the Final Report on 6 December 2007 which was comprehensive and covered the key issues of this TA. The TA benefitted from the services of Professor Andrew Sheng and Dr. Sundararajan who were engaged by the firm and who are leading experts in their respective fields. They were instrumental in laying down a well sequenced framework for regional cooperation. This resulted in strong ownership of the recommendations for regional integration. The firm was given an overall rating of excellent in the PER with specific reference to the two leading experts who delivered excellent outputs.

The other consultant provided support for the coordination of the workshop held in Manila and was also rated as excellent in the PER. No reports were required to be submitted.

The Economy of Input Provisions

The total cost of the TA is \$500,000 with ADB financing the entire cost. Participating countries contributed to the TA by facilitating the collection of information and data in their respective governments.

The productivity of outputs is rated as high, as the \$500,000 produced the following outputs, i) survey of supply and demand for regional equity products, ii) review of initiatives and actions to address legal, regulatory and supervisory constraints to cross border offerings and trading of equity; and iii) review of the framework for cross border enforcement and dispute resolution. These work provided a solid base for the work of subsequent TAs in ASEAN's capital market. Three Workshops (in Kuala Lumpur, Bangkok and Manila) were also held to discuss and assess recommendations derived from the survey and reviews. In addition the international assessment conducted by IOSCO for the regulators of Brunei, Philippines and Vietnam further added value to the TA as it provided these countries with third party assessment of experts from IOSCO.

When the account for the TA was closed, \$24,183 was undisbursed. The savings were in engaging consultants where \$7,294 was undisbursed. The contingency allocation of \$48,000 was also undisbursed, although there were additional disbursement of \$31,031 for trainings and seminars.

ADB's Performance as the Executing Agency

Based on the i) response of the participants in the final workshop held in Manila which displayed strong ownership for the seven recommendations and strategic framework presented and ii) ASEAN countries continuous request for ADB's support in developing the capital market in the region, ADB's performance is rated as satisfactory.

Evaluation of Outputs and Achievement of Outcome

All four outputs were completed as planned. These outputs were achieved through i) stock taking via country visits and country studies by experts and ii) building consensus on strategy and options by having a set of three conferences as described below:

1) **First Conference** - 29–30 March 2007²

The first conference was designed to bring together market practitioners, capital market experts and regulators to review trends and developments in global and national capital markets and to identify barriers to regional cooperation among equity markets.

2) **Second Conference** - 27 July 2007³

The second conference focused on the constraints of regional integration particularly exchange restrictions and presented the outcome of the first conference to senior officials of the Ministries of Finance, Central Banks, Securities Commissions and the ASEAN Secretariat to discuss on options to overcome barriers to regional integration.

3) **Third Conference** - on 29 October 2007⁴

The third conference served as high level forum for the ADB to present to the Ministries of Finance and regulators an overall review of the project findings and draft recommendations for regional integration of equity markets. The most important outcome of the third conference was the presentation of the strategic framework which was developed based on the first two conferences. There was ownership and agreement on the recommendations in the Strategic Framework with focus on mutual recognition, exchange alliance and the need for a coordinating mechanism.

The timing of the conferences, being just a couple of months apart from each other was the right approach and kept the momentum of the process. The outputs were achieved through a well sequenced and methodological approach.

² Hosted by Securities Commission Malaysia

³ Hosted by Securities Commission of Thailand and Stock Exchange of Thailand

⁴ Hosted by ADB in cooperation with Department of Finance, Bangko Sentral, Philippines Securities and Exchange Commission and Philippines Stock Exchange

Overall Assessment and Rating

Based on the Guidelines for Preparing Performance Evaluation Reports, the TA is rated as successful. There was a general consensus on the value of the strategic framework. However, there was a delay and difficulty in the initial stage of implementation which affected the effectivity of the TA.

Major Lessons

For regional technical assistance related to the financial sector, there needs to be engagement and consultation with the relevant ASEAN working groups and the ASEAN Secretariat from the very outset, there should be agreement on activities and outputs prior to the approval process. For work in regional capital market integration, the ASEAN Capital Market Forum (ACMF) should be the main counterpart.

Recommendations and Follow-Up Actions

This TA has been followed by TA 6473 (Strengthening Southeast Asian Financial Markets) which built upon the framework developed in this TA. TA 6473 assisted the ACMF to develop Implementation Plan 2015 which has been endorsed by the ASEAN Finance Ministers in April 2009. It is recommended that ADB remains engaged with Southeast Asia financial sector development in the medium term at least, until the successful implementation of the Implementation Plan in 2015 and then carry out another stock taking exercise to chart the steps ahead.

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