



Completion Report

Project Number: 44189-012
Technical Assistance Number: 7690
June 2017

Broadening Investor Base for Local Currency Bonds in ASEAN+3

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Asian Development Bank

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TA No., Country and Name		Amount Approved: \$1,100,000	
TA 7690-REG: Broadening Investor Base for Local Currency Bonds in ASEAN+3		Revised Amount: N/A	
Executing Agency: Asian Development Bank	Source of Funding: Investment Climate Facilitation Fund	Amount Undisbursed: \$ 647,643	Amount Utilized: \$ 452,357
TA Approval Date: 7 Dec 2010	TA Signing Date:	Fielding of First Consultant(s): 1 Oct 2011	TA Completion Date Original: 30 Sep 2012 Actual: 31 Oct 2016 Account Closing Date Original: 30 Nov 2012 Actual: 29 Nov 2016
Description In support of the Asian Bond Markets Initiative (ABMI), at the request of the Association of Southeast Asian Nations plus the People's Republic of China, Japan and the Republic of Korea (ASEAN+3), the Asian Development Bank (ADB) provided a technical assistance (TA) to broaden and diversify investor base for local currency-denominated bonds. The TA was approved on 7 December 2010 and was funded by the Investment Climate Facilitation Fund under the Regional Cooperation and Integration Financing Partnership Facility amounting to \$1,100,000.			
Expected Impact, Outcome and Outputs The expected impact of the TA was to broaden investor base for local currency bonds in ASEAN+3. The expected outcome was to help strengthen the regional financial system by deepening the bond market development and making them less vulnerable to the sudden reversal of capital flows. The expected outputs were: (i) a study which includes the assessment of the existing investor base in the region and recommendations to broaden and diversify investor base for local currency bonds; and (ii) dissemination of the findings and recommendations to policymakers for consideration and adoption.			
The TA was well designed and examined relevant issues and provided highly relevant recommendations for policymakers' consideration. The TA comprehensively analyzed both the domestic and foreign investor bases for local currency bonds, and assessed factors that impede investments by institutional and retail investors. The analysis covered ASEAN, the People's Republic of China, and the Republic of Korea (ASEAN+2) ¹ . The TA also provided recommendations on measures to promote greater participation by both domestic and foreign investors in local currency bond markets.			
Delivery of Inputs and Conduct of Activities All consultants (6 international consultants for 13 person-months and 4 national consultants for 12 person-months) were engaged as individual consultants in accordance with ADB's Guidelines on the Use of Consultants. The terms of reference for the TA consultants were well formulated. Under ADB's guidance, consultants effectively implemented the TA activities and were rated between excellent and satisfactory. The study and the dissemination of the recommendations were highly satisfactory. ADB and ASEAN+3 member countries have found this study to be highly relevant in guiding policymakers in forming policies and measures to broaden and diversify investor base for local currency bonds in ASEAN+3.			
The completion date of the TA was extended from 30 September 2012 to 31 October 2016 due to requests from ASEAN+3 members, particularly the Co-Chairs of Task Force 2 (Japan and Singapore), for ADB to undertake another study on expanding currency swap markets, as part of efforts of broadening investor base and further developing bond markets in the region.			
The performance of ADB staff was highly satisfactory as they provided guidance and carried out discussions with ASEAN+3 member countries on these two studies under the TA at two ASEAN+3 ABMI Task Force Meetings and helped design the workshops for member countries. The proactive support by both the ADB staff and the ASEAN+3 member countries contributed to effective project implementation.			
Evaluation of Outputs and Achievement of Outcome The two outputs of the TA (see details below) were delivered within the original TA completion date and were even beyond the scope of work required in the approved TA paper. As indicated above, in addition to the study on broadening investor base in ASEAN+3, a second study on the TA was also successfully completed. Finally, two workshops were conducted as planned in the approved TA paper. The outcome was achieved as demonstrated by the full support of ASEAN+3 governments and their adoption of policies and regulations that have facilitated the broadening of the investor base.			
Publication on Broadening the Investor Base for Local Currency Bonds in ASEAN+2 Countries. It focuses on measures to expand and broaden investor base for local currency bonds in ASEAN+2, with the goal of generating greater variety in investment objectives and a wider range of investment strategies. The main findings of the draft			

¹ Japan was not covered because bond market in Japan is well advanced.

final report was initially presented to ASEAN+3 members during the ABMI Task Force Meeting on 13 July 2012. Comments from ASEAN+3 officials have been reflected in the final report, which was published in May 2013. The study is published on the AsianBondsOnline website (<https://asianbondsonline.adb.org>) and can be downloaded in the ADB website (<https://www.adb.org/sites/default/files/publication/30255/broadening-investor-base.pdf>).

Dissemination/Training Workshops. Two training workshops were conducted to disseminate the lessons learned from the successful experience of members of ASEAN+3 in developing the local currency bond markets, particularly in broadening and diversifying investor base for local currency bonds.

The first training workshop was organized on 28 August 2012 in Bangkok for officials from Cambodia; Lao, PDR; Myanmar; and Viet Nam. In light of the interest expressed by non-ASEAN+3 member countries in the policy support and progress made under ABMI, as concurred by ASEAN+3, the workshop was also opened for the first time to policymakers from Bangladesh, Bhutan, India, Nepal, the Maldives, Sri Lanka, and Mongolia, benefitting 55 policymakers from 11 member countries of ASEAN+3 and those from South Asia.

The second workshop on 30 August 2012 was for the training of policymakers working directly to support the bond market development in Indonesia. Given the topics covered under the workshop, 25 market participants from domestic credit rating agencies, insurance companies, custodian and settlements institutions, bond pricing agency, stock exchange, and pension fund association (or nearly half of the participants) requested to participate in the workshop at their own expenses. In total, there were 75 policymakers, regulators and market makers who participated in this training workshop.

All participants in both training workshops have expressed their appreciation for the training and stressed that the presentations and discussions were highly relevant and helpful for their work in support of local currency bond market development, including lessons learned from the successful experience of ASEAN+3.

Publication on Facilitating Foreign Exchange Risk Management for Bond Investments in ASEAN+3. It reviews the foreign exchange (FX) and FX hedging markets in ASEAN+3 as they relate to cross-border investments in local currency bonds, and provides recommendations to facilitate the development of the markets and FX risks management. The main findings of the draft final report was presented to ASEAN+3 members during the ABMI Task Force Meeting in Seoul on 5 November 2014. Comments from ASEAN+3 officials have been reflected in the final report, which was published in August 2015. The study can be downloaded in the ADB website (<https://www.adb.org/publications/facilitating-foreign-exchange-risk-management-bond-investments-asean3>) and in the AsianBondsOnline website (<https://asianbondsonline.adb.org>).

Overall Assessment and Rating

The TA was highly successful in achieving the expected outcome and expected impact as the size of local currency bond in the region increased to \$9.1 trillion by the end of 2015, which was significantly greater than the \$7 trillion performance target in 2015. ADB staff, including those not directly responsible for implementation of the TA, have contributed to the TA with inputs and guidance. Importantly, the TA has produced high quality outputs due to the active participation and contribution of ASEAN+3 member countries who took ownership of the TA and worked in close partnership with ADB. Policymakers in ASEAN+3 have unceasingly accelerated reforms to further deepen financial market development across the region. As broadening and diversifying investor base are essential for financial market's resilience, policymakers are therefore expected to continue and sustain reforms in these areas.

Major Lessons Learned

The experience with bond market development in ASEAN countries suggest a number of policy initiatives that can contribute to the expansion of the investor base for local currency bonds. In considering the policy options, it is important to recognize that it is crucial to broaden and diversify investor base as different investors have different risk perceptions and employ different trading strategies. The bigger size of investor base with a greater variety of investors would have dampen market volatility and improve market resilience to external shocks. Some of the important recommendations are to: (i) promote long-term investment in local currency bond strategies; (ii) promote long-term investing; and (iii) distinguish between accredited investors and retail investors.

Recommendations and Follow-Up Actions

The Finance Ministers and Central Bank Governors of ASEAN+3 announced their endorsement of the medium-term road map for ABMI in their joint statement on 3 May 2016 at the sideline of ADB's 49th Annual Meeting. In line with the road map, ASEAN+3, particularly the Co-Chairs of Task Force 2 (to promote the demand for local currency bonds), have requested ADB to undertake a new study on how ASEAN+3 could promote covered bonds to meet housing needs and explore options to develop municipal finance for infrastructure development in member countries.

ABMI = Asian Bond Markets Initiative; ASEAN = the Association of Southeast Asian Nations; ASEAN+2 = ASEAN, the People's Republic of China, and the Republic of Korea; ASEAN+3 = ASEAN, the People's Republic of China, Japan, and the Republic of Korea; TA = technical assistance.