

RETA 6127
Technical Assistance for ASEAN +3
Regional Guarantee Mechanism
Major Change in Scope and Additional ADB Financing

1. RETA No. 6127 ASEAN+3 Regional Guarantee Mechanism was approved on 17 October 2003 for \$500,000. This RETA was provided in response to the request made by the Working Group on Guarantee Mechanism (WG2) for the Asian Bond Market Initiative (ABMI) created under the Forum of Finance Ministers of the Association of Southeast Asian Nations (ASEAN) and People's Republic of China (PRC), Japan, and Republic of Korea (ASEAN+3). The objective of the TA was to assist WG2 in the identification of ways to improve better utilization of guarantee mechanisms to support the development of domestic and regional bond markets.

2. TA implementation started in December 2003. Interim TA consultants report submitted to WG2 in March 2004 in Manila indicated that the existing international and domestic entities, which provided bond guarantees, would not be sufficient to support bond market development even with improvements that were to be suggested in the original scope of the TA. The report recommended that consideration be given to the establishment of a new entity. WG2 requested ADB that the scope of the study be expanded to investigate options that may be adopted to improve institutional framework through enhancement of existing entities and also possibly establishing a new institution. It was also requested that loans and equity investment be considered to assist in the development of issuers in nascent bond markets.¹

3. Based on the original scope, consultants have so far completed review of the foreign companies that provide bond guarantees in the region, and a preliminary review of the domestic institutions. For the most part the study on guarantee and bond market has been completed. The consultants have also concluded initial macro assessment of the demand for bond guarantees.

4. In response to the request of WG2, the TA is now expanded through a major change in scope to analyze the possible options for the strengthening of institutional arrangements to promote bond market development in the ASEAN+3 region including the possible establishment of a new institution dedicated to that purpose. For the analysis, various combinations of business lines (guarantees, loan, equity), regional coverage (ASEAN+3, ASEAN+3 and risk smoothing secondary business), and organizational structure (expansion of existing organizations, private corporation, public private partnership and multilateral) will be considered as possible options. In order to construct a robust preliminary business plan for each of the options being considered, a financial simulation model will be developed. Crucial inputs to the model include macro and bottom up demand estimates from each possible business lines, cost estimates for

¹ In emerging markets where borrowers do not have access to domestic or regional markets, loans can help encourage bond issuances by requiring the use of international standards of documentation and disclosure. Loans made under these standards can be securitized into Asset Backed Bonds and issued in the regional market. Equity investment may be used to catalyzed investment for bond infrastructure.

human resources, and risk mitigation measures. The business plan for each option will be developed to crowd-in private sector investment and supplement the existing bilateral and multilateral institutions. For this purpose, market consultation seminars are planned to gauge sentiment and demand of the market participants.

5. The expansion of the TA scope will not materially alter or fundamentally affect the purpose of the TA. However, the overall TA cost is estimated to increase from \$500,000 to \$1.0 million. To meet the additional TA financing requirement of \$500,000, ADB will provide an additional \$300,000 from its TA funding program, the Korea Securities Depository (KSD) and the Government of PRC will each provide cofinancing of \$100,000. ADB will administer the cofinancing from KSD while PRC's cofinancing will be made on a parallel basis. The funds will be used for additional consulting services (12.5 months of international consultancy and 8 months of local consultancy input), coordination meetings, travel, and data costs. The current contract with the consultants will be amended to incorporate these changes and additional consultants will be hired in accordance with the *ADB Guidelines for the use of Consulting Services* and other arrangements acceptable to ADB for the engagement of domestic consultants. It is envisaged that the TA will be completed by June 2005.

6. The President approved on 8 December 2004 (i) the major change in scope for the ASEAN+3 Regional Guarantee Mechanism, (ii) additional ADB financing not exceeding the equivalent of \$300,000 on a grant basis, and (iii) administration of \$100,000 cofinancing provided by KSD on a grant basis.