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RECENT DEVELOPMENTS ON LOCAL CURRENCY BOND MARKETS IN EMERGING ECONOMIES

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EXECUTIVE SUMMARY

At the Cannes Summit in 2011, the G20 launched an initiative to prepare an action plan for the development of local currency bond markets (LCBMs). Each year, the IMF and the World Bank have produced a brief joint note to take stock of recent developments related to the G20 LCBM Action Plan. This note summarizes key trends and developments in LCBMs since June 2017.

Emerging Market (EM) LCBMs continued their growth in 2017, with significant issuance of local currency debt during the year. The total stock of EM debt securities rose by USD 1.27 trillion to USD 21.9 trillion in 2017. The share of EM debt in local currency rose from 85.5 percent in 2016 to an estimated 87.1 percent in 2017 with USD 19.0 trillion denominated in local currency. LCBMs continue to be dominated by Asia, with continuing market growth in China and South Korea.

Many emerging and low-income countries (LICs) continue to rely on external issuance for financing, or on foreign investors to purchase domestic debt. There was significant issuance of Eurobonds in 2017, as sovereigns took advantage of cost effective funding opportunities. Holdings of EM local currency government bonds by foreign investors also grew by 1.8 percent in 2017 to 20.2 percent on average.

LCBM development initiatives are on the work agenda of international organizations (IOs). IOs are continuing efforts to strengthen EM capital markets and boost LC financing. The World Bank's Maximizing Finance for Development Agenda has brought new focus to support the growth of LCBMs in EMs. The International Development Association's Private Sector Window has brought additional resources to these efforts in low income and fragile economies. Existing initiatives including the G20's Compact with Africa, the World Bank Joint Capital Markets Development initiative, the Financial Sector Reform and Strengthening Initiative (FIRST), the IMF/World Bank's Debt Management Facility II and bilateral funding have also strengthened technical assistance efforts.

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Abbreviations and Acronyms

ADB	Asian Development Bank
AE	Advanced Economy
AUM	Assets under Management
BIS	Bank for International Settlements
CFO	Chief Financial Officer
EM	Emerging Market
EME	Emerging Market Economy
EMTA	Trade Association for the Emerging Markets
EU	European Union
EUR	Euro
F&M	World Bank Group Finance and Markets Practice
FIG	Financial Infrastructure Group
FSB	Financial Services Board
FX	Foreign Exchange
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GMTN	Global Medium-term Note
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IOSCO	The International Organization of Securities Commissions
IFAWG	International Financial Architecture Working Group
IFC	International Finance Corporation
IMF	International Monetary Fund
LIC	Low Income Country
IO	International Organization
LMI	Low- and Middle-Income
LMO	Liability Management Operation
MDB	Multilateral Development Bank
MIGA	Multilateral Investment Guarantee Agency
PD	Primary Dealer
PPP	Public–Private Partnership
PSW	Private Sector Window
SECO	Swiss Economic Cooperation and Development
SME	Small and Medium-sized Enterprises
SSA	Sub-Saharan Africa
TA	Technical Assistance
TF	Trust Fund
USD	United States dollar
WAEMU	West African Economic and Monetary Union
WBG	World Bank Group

INTRODUCTION[1]

Significant progress has been made since the Cannes Summit in 2011, which marked the G20's launch of an initiative to strengthen the development of local currency bond markets (LCBMs) in emerging markets (EMs). The action plan targeted three key areas for progress: (i) scaling up technical assistance (TA), (ii) developing a shared database to track such assistance, and (iii) monitoring the progress made on an annual basis.

Deepening a country's LCBM provides several financial stability benefits, which are particularly relevant in the current macroeconomic and financial context. A well-developed LCBM: (i) increases a country's ability to withstand global capital flows; (ii) reduces its reliance on foreign currency borrowing and lessens exchange rate risks; (iii) contributes to the reduction of current account imbalances; (iv) lowers the need for large precautionary reserve holdings; and (v) allows bank and corporate balance sheets to adjust more smoothly, improving the capacity of macroeconomic policies to respond to shocks.

This report is organized as follows: Section I examines trends in government and nongovernment LCBMs, including size, investor base, secondary market liquidity, and key drivers. Section II provides an update on recent work of International Organizations (IOs) in developing LCBMs.

CURRENT DEVELOPMENTS IN LCBMs IN EMERGING MARKET ECONOMIES

A. Overview of Trends in LCBMs

1. EM LCBMs continued to grow in 2017, with significant issuance of domestic debt across a range of economies. EM total debt grew by 6.2 percent year-over-year in nominal USD terms, to an estimated USD 21.9 trillion in 2017 (Table 1, Figure 1). The increase in total debt was driven by growth in local currency debt, with its share of total debt rising from 85.5 percent in 2016 to an estimated 87.1 percent in 2017. As a share of GDP, local currency debt fell slightly, by an estimated 0.8 percentage points. Over the past year, general government debt in EMs increased from USD 9.4 trillion to an estimated USD 10.3 trillion. EM total nongovernment debt increased more slowly, from USD 11.2 trillion in 2016 to an estimated USD 11.6 trillion in 2017.

[1] This note was prepared by Anderson Caputo Silva and Cindy Paladines from the World Bank Group (WBG) and Thordur Jonasson, James Knight and Tadeusz Galeza from the International Monetary Fund (IMF), under the overall guidance of Alfonso Garcia Mora and Ceyla Pazarbasioglu from the WBG, and Daniel Hardy and Miguel Savastano from the IMF respectively. The authors would like to thank peer reviewers from the WBG and the IMF for their input and comments to this note. The views expressed herein are solely the authors' and should not be attributed to the WBG, the IMF, their Executive Boards, or their management.

Table 1. Emerging Market Debt Overview 2011–17 (USD trillion)

	2011	2012	2013	2014	2015	2016	2017e
Total Debt	12.7	14.0	14.5	16.2	18.2	20.6	21.9
Local Currency	11.2	12.3	12.5	14.0	15.4	17.6	19.0
International Market	1.5	1.8	2.0	2.2	2.8	3.0	2.8
Local as Share of Total (%)	88.3	87.5	86.0	86.5	84.5	85.5	87.1
Local as Share of GDP (%)	42.0	43.8	42.1	45.6	51.5	60.4	59.6
General Government	6.5	7.2	7.3	7.5	8.0	9.4	10.3
Nongovernment	6.1	6.8	7.2	8.7	10.2	11.2	11.6
Government as Share of Total (%)	51.6	51.3	50.6	46.3	44.1	45.6	47.0
Government as Share of GDP (%)	24.6	25.7	24.7	24.4	26.9	29.4	32.2
Nongovernment as Share of GDP (%)	23.0	24.4	24.2	28.3	34.1	35.0	36.2
Local Currency Debt by Type of Issuer	11.2	12.3	12.5	14.0	15.4	17.6	19.0
General Government	5.9	6.5	6.6	6.7	7.2	8.4	9.2
Nongovernment	5.3	5.8	5.9	7.3	8.2	9.2	9.8
Government as Share of Total (%)	52.7	52.6	52.5	47.9	46.7	47.9	48.5
International Debt by Type of Issuer	1.5	1.8	2.0	2.2	2.8	3.0	2.8
General Government	0.6	0.7	0.8	0.8	0.8	1.0	1.1
Nongovernment	0.8	1.0	1.2	1.4	2.0	2.0	1.8
Government as Share of Total (%)	43.7	41.8	38.8	35.8	30.0	32.1	37.4
Local Non-Government Debt by Region (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Asia Pacific	73.0	73.0	74.0	80.0	84.0	83.9	84.6
Latin America and Caribbean	20.0	19.0	19.0	15.0	12.0	11.4	10.6
Emerging Europe	4.0	4.0	5.0	3.0	3.0	3.0	3.1
Africa and Middle East	3.0	3.0	3.0	2.0	2.0	1.6	1.7
Local General Government Debt by Region (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Asia Pacific	50.0	51.0	54.0	58.0	63.0	65.7	66.4
Latin America and Caribbean	33.0	32.0	30.0	28.0	24.0	23.2	22.9
Emerging Europe	11.0	10.0	10.0	8.0	7.0	5.5	5.4
Africa and Middle East	7.0	7.0	7.0	6.0	6.0	5.5	5.3

Sources: Bank of America Merrill Lynch (BAML), Bank for International Settlements (BIS).
NB: As defined in the Handbook on Securities Statistics, the general government sector can be divided into central government, state government, local government, and social security funds (2008 SNA, paragraph 4.129). Non-government sector debt includes debt of financial corporations (including banks) and non-financial corporations.

2. Geographically, LCBMs have remained largest in the Asia Pacific region. From 2016 to 2017, government local currency debt outstanding in the region grew by USD 1.1 trillion, mainly driven by increases in debt in China and South Korea. However, there have been significant pockets of growth in LCBMs in several other EMEs, including Brazil, Mexico, Slovakia, and South Africa.

3. While local currency bond markets have grown, sovereigns in many emerging market and low-income economies continue to rely on external borrowing for financing and have continued to access international capital markets. Eurobond issuance surged in 2017 as global interest rates remained low (Figure 2). However, market access for sovereigns can be highly uncertain as the Eurobond market can be volatile. With the dollar appreciating against many currencies over the course of the last year, the cost of external borrowing for a number of EM issuers with significant USD exposure has risen, crystallizing the foreign exchange (FX) risk embedded in debt portfolios and illustrating the importance of deepening LCBMs as a tool for reducing FX risk.

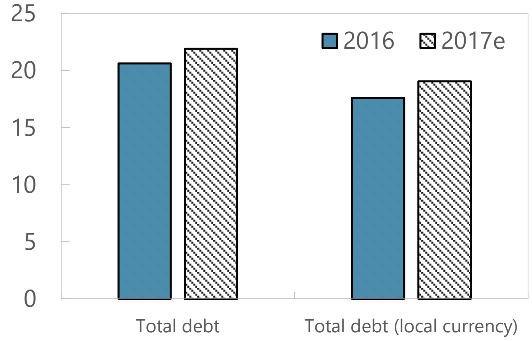
4. Nonresident investors continue to maintain large positions in several EM government bond markets, with substantial holdings in local currency bonds (Figure 3). For example, in 2017 the share of nonresident investors in local currency government bond markets was above 30 percent in Indonesia, Mexico, Peru, Poland, and South Africa. However, in some EMs, including Brazil, Hungary, India, and Ukraine, nonresidents' market share fell last year. China and India, two of the largest issuers of local currency bonds, continued to have limited participation by nonresidents, reflecting restrictions to access in those markets. Participation of foreign investors in local currency non-government debt remains small, but growing as domestic markets develop and an increasing number of instruments in EM currencies are issued in international capital markets (Box 2).

5. Sudden capital outflows remain a key risk for LCBMs where nonresident investors are major holders of local currency debt. The anticipated rise in advanced economy interest rates, especially in the United States, carries the potential for capital flow reversals. For some economies, particularly those with macroeconomic imbalances and large fiscal deficits, the combination of large outflows and higher global interest rates may increase refinancing risks.

Figure 1. Recent Developments in EM Local Currency Debt

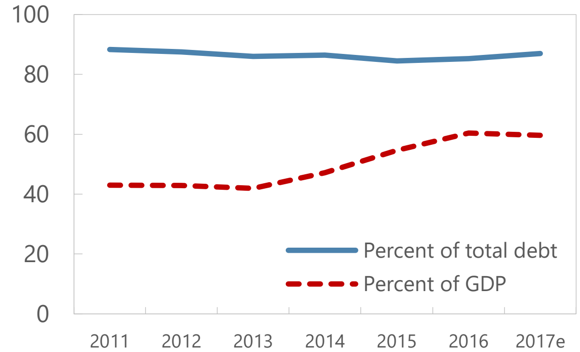
Total debt rose USD1.3 trillion between 2016 and 2017, with local currency debt increasing by USD 1.45 trillion.

Total debt
(USD trillions)



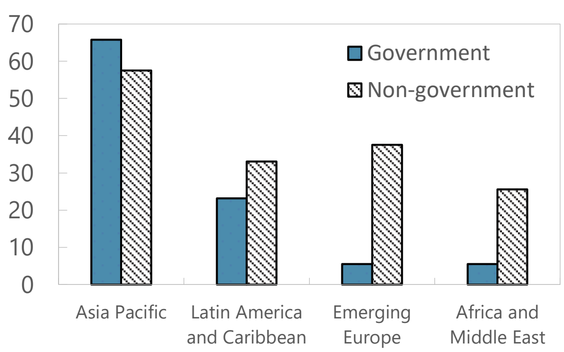
Overall, local currency debt outstanding has remained high and growing as a share of GDP.

Local currency debt outstanding



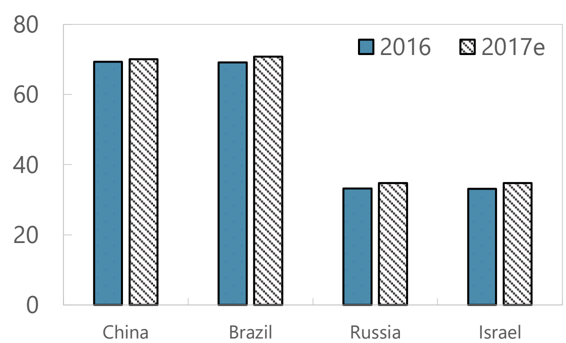
Asia-Pacific accounts for the largest share of global local currency bond markets, particularly for government debt.

Share of local currency bond markets by region, 2017e
(In percent of total)



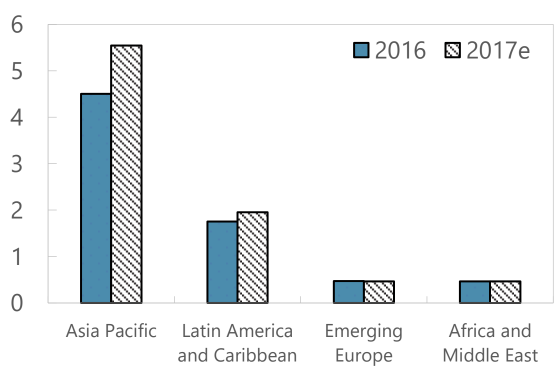
Local currency debt markets in some regions are dominated by one large economy.

Share of local currency bond market by region
(In percent of region)



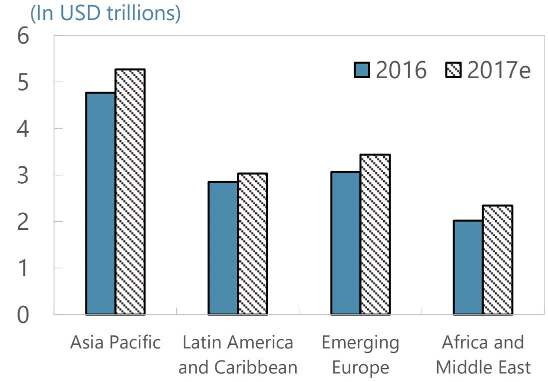
There was a large increase in local currency government debt in the Asian Pacific region in 2017...

Local currency government debt outstanding
(In USD trillions)



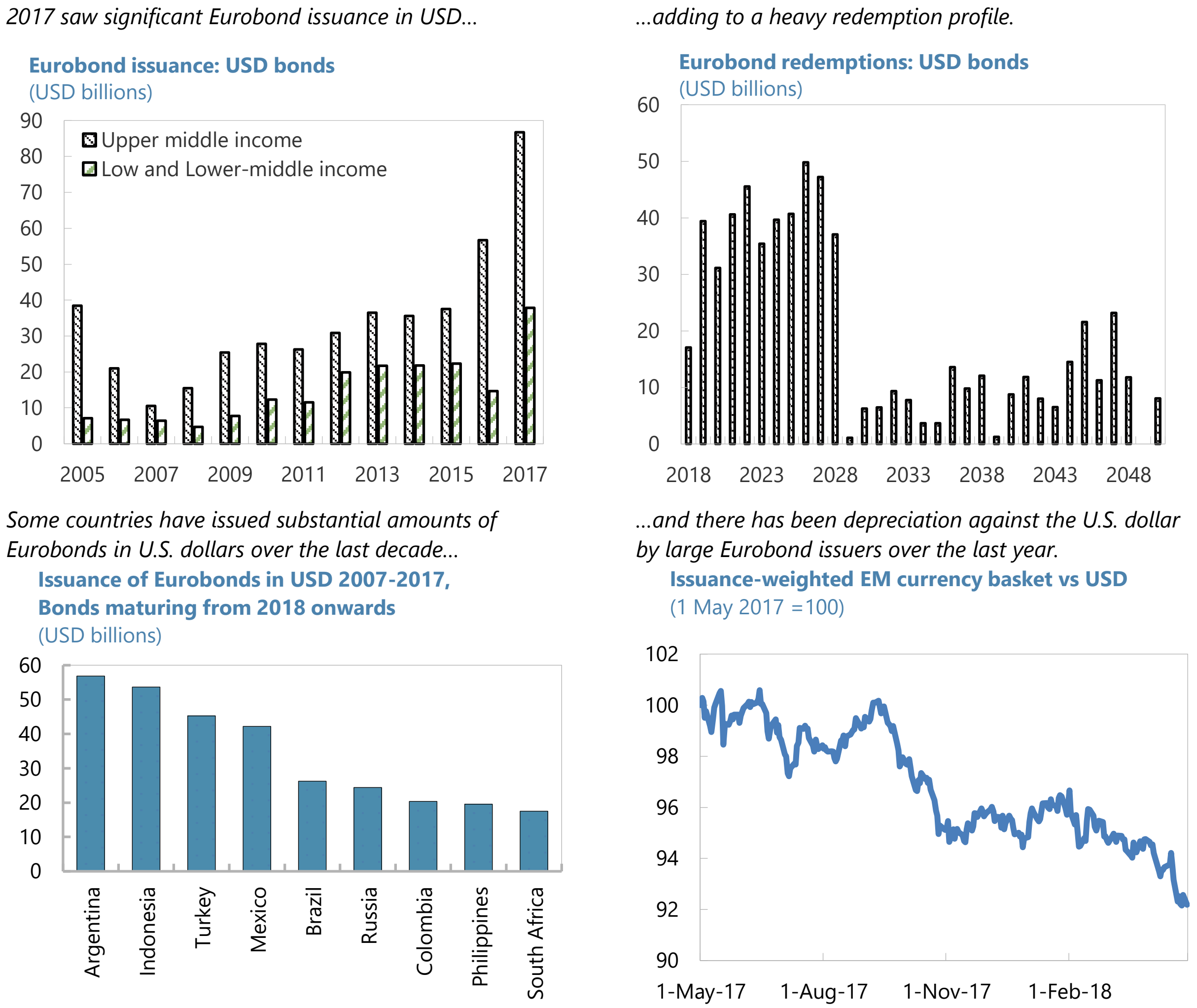
...and also in local currency non-government debt.

Local currency non-government debt outstanding
(In USD trillions)



Sources: BIS and BAML.

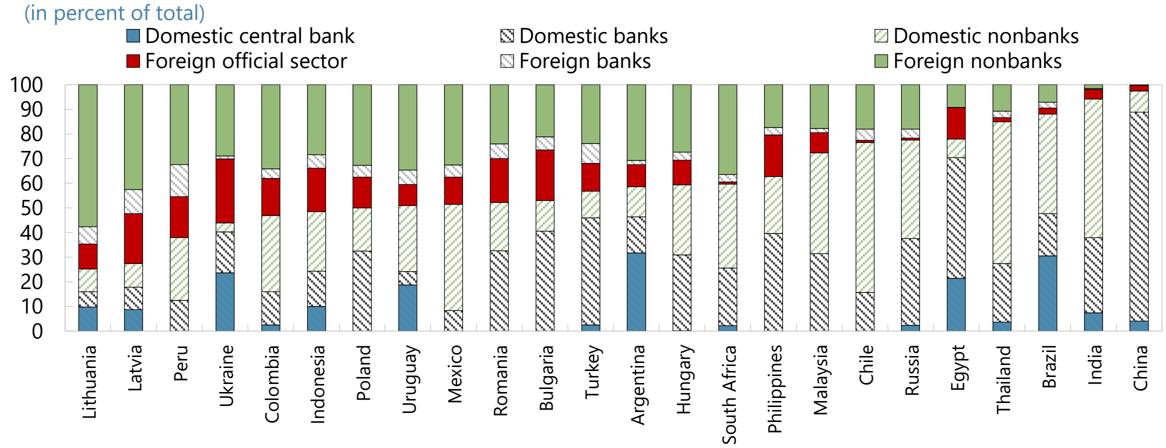
Figure 2: External Debt Issuance in EMs and LICs



Sources: Dealogic and Bloomberg.

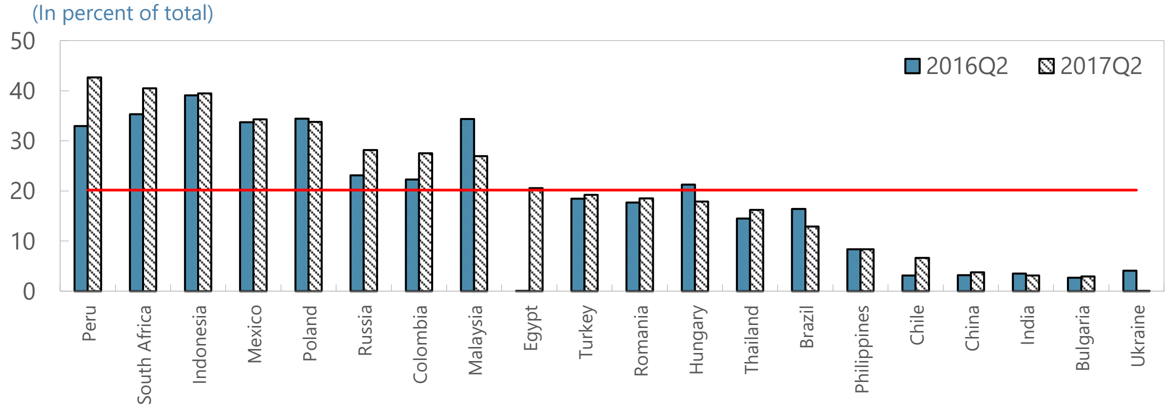
Figure 3. Recent Developments in Nonresident Holdings of EM Government Debt Securities

Investor base of EM general government debt at the end of Q2 2017
(in percent of total)



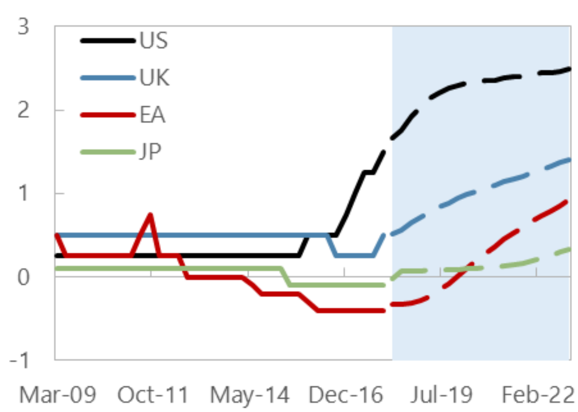
The average share of nonresident holdings of local currency government debt increased by about 2 percentage points between 2016 and 2017.

Nonresident Holdings of Government Debt in Local Currency
(In percent of total)



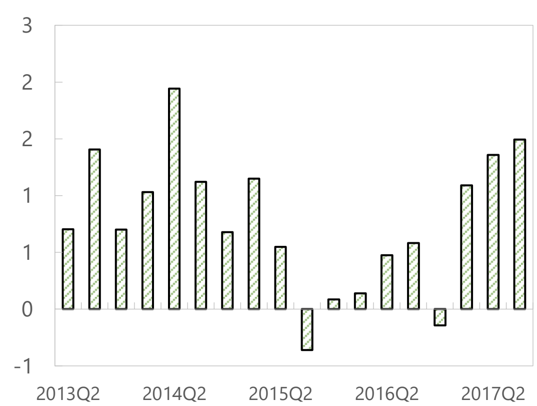
With market expectations of rising rates in AEs…

Major Advanced Economies Interest Rates and Market Based Projections
(In percent)



…portfolio debt flows could reverse their recent trend.

Emerging markets: portfolio debt flows
(In percent of GDP)



Sources: Bloomberg, Haver, IMF Sovereign Investor Base Dataset for Emerging Markets (Arslanalp and Tsuda), and IMF staff calculations.

B. Main Developments in LCBMs

6. LCBMs continue to become more accessible, to investors and non-government issuers, in a large number of countries. Local currency government bond markets now exist not only in large EMs but are becoming common in an increasing number of low income countries (LICs). Access to local currency bond markets by new non-government issuers is also expanding, driven by a growing need for capital market financing and increasing demand, including from foreign investors. Market infrastructure upgrades, such as the development of local Central Securities Depositories (CSDs) and, in some cases, links to International CSDs (ICSDs), are broadening access to local currency markets for investors.

Expansion of government LCBMs in LICs

7. Domestic bond markets in local currency are growing in low income countries. These markets are primarily being used to finance widening fiscal deficits. For example, in a group of 32 Sub-Saharan African (SSA) economies, the stock of local currency debt has grown by USD 21.2 billion over the last five years (Figure 4).[2] However, external debt issuance has also remained high in those countries, reflecting funding cost advantages from Eurobond issuance and opportunities for longer maturity issuance. This highlights the need to remove obstacles to deepening domestic markets, to improve the cost-effectiveness and stability of local currency financing.

8. Several Sub-Saharan countries have managed to issue at longer maturities as they develop their LCBMs. Some governments, such as those of Ghana, Kenya, Namibia, Nigeria, and Tanzania have issued local currency bonds at maturities greater than 15 years, and a number of countries—including Kenya, Angola, Uganda and Senegal—have doubled the outstanding stock of their local currency government debt in a few years. The largest increase in average maturity over the last five years has taken place in lower middle-income countries (where average maturity has risen from 2.4 years in 2010 to 4.2 years in 2016). Several countries have moved from financing via short-term instruments such as Treasury bills towards greater issuance of longer maturity bonds.

9. However, lengthening the maturity of issuance may increase the share of nonresident investor holdings. In the absence of well-developed nonbank financial institutions (particularly long-term savings institutions such as pension funds and insurance companies) in the domestic economy, demand for local currency government bond issuance is often limited to domestic banks, who typically have a short-term investment horizon reflecting their liability profile and liquidity needs. Increasing the average maturity of issuance therefore can place greater reliance on nonresident investors to purchase domestic debt. Issuers must face the trade-off between the risk of a higher share of nonresident investors in LCBMs against the potential exchange rate risks from external issuance.

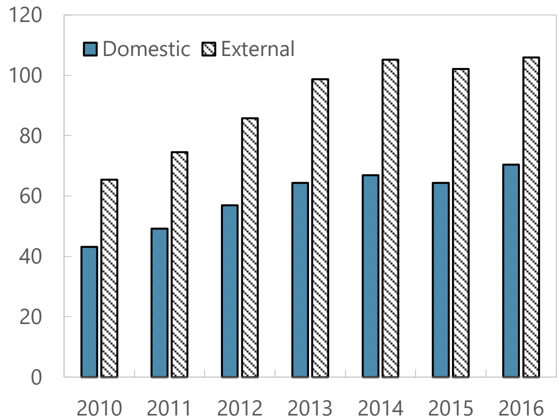
[2] The group comprises Angola, Benin, Botswana, Burkina Faso, Burundi, Cabo Verde, Cameroon, Cote d'Ivoire, Ethiopia, Gabon, The Gambia, Ghana, Guinea, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, Seychelles, Swaziland, Tanzania, Togo, Uganda and Zambia.

Figure 4. Local Currency Bond Markets in Sub-Saharan Africa

Both domestic and external debt stocks have been growing in SSA…

Stock of Domestic and External Debt

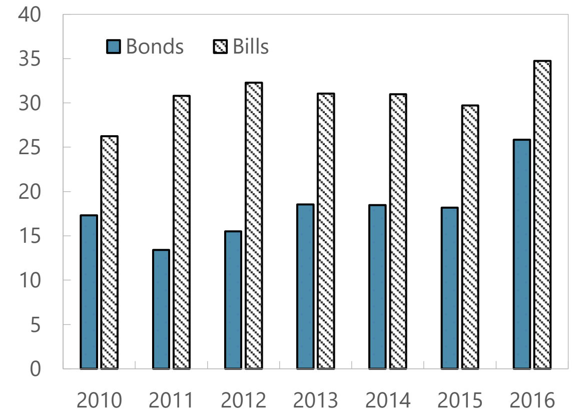
(In billions of USD)



…and bonds are becoming a more important source of financing.

Stock of Bonds and Bills

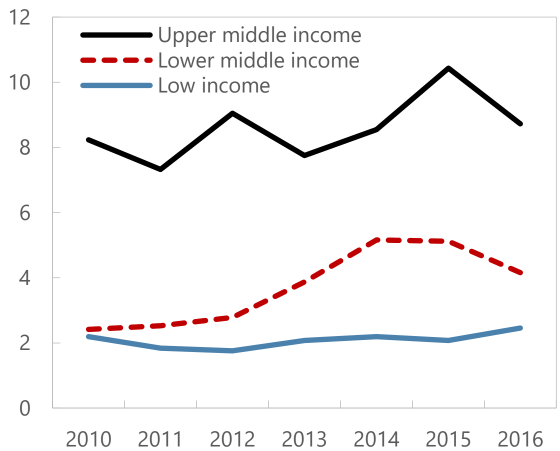
(In billions of USD)



Average maturities have risen the most in LMI economies…

Average Maturity

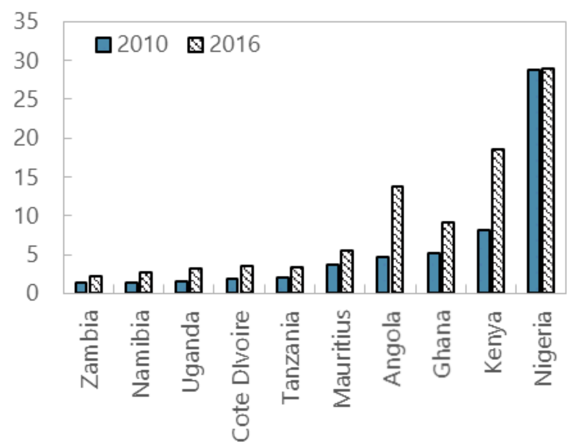
(In years)



…and some markets have seen significant increases in local currency debt.

Stock of Domestic Debt by Country

(In billions of USD)



Sources: African Development Bank African Financial Markets Initiative (AFMI); and IMF staff calculations.

10. Some countries have taken active approaches to encourage nonresident investors to purchase domestic government debt. For example, in 2017, Uruguay introduced its first local currency "Global Bond", which enabled it to retire external debt and lengthen the overall maturity of its local currency bonds (Box 1). This issuance was promoted as part of an active investor communication strategy.

Box 1. Uruguay: Issuance of Global Local Currency Fixed Rate Bonds

In June 2017, the Republic of Uruguay issued its first nominal fixed-rate global bond in local currency, with a five-year maturity. This was followed by issuance three months later of a new 10-year local currency global bond. Concurrent with these new issues, Uruguay undertook intra-day liability management operations, with tender offers targeting shorter-maturity sovereign bonds (in both CPI-linked pesos and U.S. dollars). Investors were given the opportunity to switch into the new issue or sell existing holdings for cash. The inclusion of the bonds in the GBI-EM Global Diversified index helped to further diversify the investor base and enhance secondary market liquidity.

The transactions helped to reduce the country's borrowing costs, extend the maturity of its debt and reduce exposure to foreign exchange risk. The government had previously relied on U.S. dollar or domestic currency inflation-linked bonds for attracting international investors. Issuing these new bonds in pesos significantly lowered the local currency cost of financing, as well as increasing the average maturity of local currency debt, reducing rollover and refinancing risk. At the same time, they reduced the reliance on foreign currency borrowing and corresponding exchange rate risk. The country could complete all its domestic and international capital market funding (a total of USD 2.3 billion) in local currency.

In May 2018, the government worked together with the World Bank Treasury to convert outstanding loans with the World Bank from dollars to pesos. The approach was based on matching a World Bank nominal peso bond issue with a loan conversion, as the peso swap market is not sufficiently developed, especially at longer maturities. The strategy consisted of aligning a 10-year World Bank USD 25 million nominal issue in pesos with a 14-year USD 21 million loan conversion for Uruguay. Providing both sides of the transaction to a dealer who took the mismatch in cashflows allowed for a significant price improvement (over 100 basis points) relative to a potential cross-currency swap. This required coordination between the government of Uruguay, investors in World Bank bonds, a derivatives dealer, and the World Bank Treasury. Going forward, these structures could be used as a stepping stone in the development of nascent swap markets in emerging market countries.

Non-government bond markets: New frontiers for foreign investors

11. In the wake of the Global Financial Crisis (GFC), with reduced fiscal space in EMEs and stricter banking regulations, the need to continue to mobilize financing for sectors such as infrastructure and housing has placed greater emphasis on non-government bond issuance. Non-government bond markets have grown as the supply of long-term financing by banks has become scarcer and more expensive, in part due to stricter regulations. Building on the development of government yield curves and given a growing domestic investor base, non-government issuers have been increasingly able to access domestic bond markets to finance investments, especially those related to housing and infrastructure (see Box 2).

12. **Offshore issuance has proven to be an opportunity for increasing foreign investment in local currency non-government debt.** To date, foreign investors have significantly increased their investment in domestic local currency government debt, but not in non-government debt. Investors have cited several reasons: lack of liquidity; concerns about creditor rights; the insolvency resolution regime; and local financial market infrastructure. Several non-government issuers have found it easier to attract foreign investors by issuing local currency bonds offshore. Recent non-government bonds have been issued in a range of currencies, including the Georgian lari, Tunisian dinar, and Mauritian rupee, accelerating the participation of foreign investors in non-government local currency markets.

Box 2. Offshore Local Currency Corporate Bond Market on the Rise

A growing number of issuers are finding it attractive to issue in the offshore local currency bond market. The opening of the offshore Indian (Masala) corporate bond market, and the return to market of corporates issuing in Russian rubles and Turkish liras have raised issuer confidence that investor appetite exists for such issuance. Policy activity has also helped spur growth in local currency corporate debt.

Offshore Indonesian rupiah (IDR) denominated bonds ("Komodo" bonds) have helped to improve Indonesian corporates' ability to raise market funding through the market. Since PT Jasa Marga's three-year Komodo bond helped raise IDR 4 trillion (approximately USD 298 million) in December 2017, several Indonesian corporates have raised and/or are planning to raise significant funding from global investors through rupiah-denominated Komodo bonds. Appetite for these issues has been strong—PT Jasa Marga's issue was heavily oversubscribed, as was a Komodo bond issued by construction company Wijaya Karya in early 2018, which raised IDR 5.4 trillion (approximately USD 403 million).

Adjustments to the tax treatment of similar issues in other jurisdictions have improved the success of offshore issuance. India first issued a 10-year, 10 billion INR bond (approximately USD 163 million) in 2014, with the support of the International Finance Corporation (IFC). This was soon followed by India's first ever corporate Masala bond in 2016, when the Housing Development Finance Corporation Ltd. (HDFC) became the first corporate to issue INR 30 billion with a tenor of 37 months and a fixed semi-annual coupon of 7.875 percent. Since then, several "Masala" bonds have been issued, raising billions of INR for infrastructure finance. One possible reason for India's Masala bond success could be the changes that the government of India introduced into the withholding tax for corporates issuing Masala bonds—though the withholding tax burden is typically 15 percent in the Indian context, the government of India offered a concessional withholding tax rate of 5 percent under the Masala bond program. This concessional rate has been offered to issuers and investors until July 2020.

Improving international investor access

13. A commonly cited impediment to international investors' participation in LCBMs in EMEs and LICs is the requirement to settle and clear through local custody arrangements. To address this, some countries are seeking to integrate their settlement and clearing systems with ICSDs. For example, in 2017 Chile and Peru joined the Euroclear system, with Kazakhstan and Panama working to include their securities in Clearstream and Euroclear to ease foreign investor access to the local bond market.

14. Integrating with ICSDs can create challenges for nascent LCBMs. While local market integration can offer wider investor access to domestic LCBMs, due consideration needs to be given to other consequences. Opening up a local bond market prematurely may undermine local intermediaries (with potential consequences for liquidity for domestic investors), and cause market fragmentation. Integration may also weaken the ability of the government to supervise and tax the domestic bond market effectively in the absence of appropriate regulations and controls, and potentially undermine any domestic regime for pre- and post-trade transparency.

15. Participation in the local market by international investors can also be facilitated through the use of Global Depositary Notes (GDNs). Similar to Global Depositary Receipts (GDRs) for equities, GDNs evidence ownership of an underlying debt security in local currency through the involvement of a depositary bank. They allow investors to trade, settle and receive interest in U.S. dollars and clear through major ICSDs. GDNs are available in a number of EMs and LICs, including Nigeria, Chile, and Vietnam; Ghana has announced that it is considering the use of GDNs in 2018. However, issuers will have to weigh the attractiveness of such instruments against the additional complexity of setting up a GDN program, as well as the fees and charges for investors participating.

16. Increased international participation in LCBMs places greater responsibility on EM and LIC governments to maintain sound fiscal and monetary policy and a stable political environment. The Diagnostic Framework (DF) for LCBMs provides a comprehensive approach to bond market development, and it is particularly relevant when considering the participation of international investors in LCBMs.[3] The framework places emphasis on macroeconomic policy and financial sector stability when considering foreign investor participation. A credible policy framework, with a well-developed communication strategy, forms the foundation for a market that can support a government's evolving financing requirements. In parallel, EMs and LICs should continue to enhance market infrastructure. The DF for LCBMs also provides broader guidance on deepening the local currency market, including developing money markets (e.g., repo markets), and improving primary and secondary markets for government bonds.

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[3] IMF. (2013). *Local Currency Bond Markets – A Diagnostic Framework.* https://www.imf.org/external/np/pp/eng/2013/070913.pdf.

WORK OF INTERNATIONAL ORGANIZATIONS IN DEVELOPING LCBMS

A. Development Framework and Technical Assistance

17. International Organizations (IOs) are increasing their efforts to support the development of LCBMs in EMs and LICs. Collaboration between IOs is also evolving, in alignment with the G20 LCBM Action Plan:

- **The African Development Bank recently approved the creation of the African Domestic Bond Fund (ADFB), the second pillar of its African Financial Markets Initiative (AFMI).** The ADBF will be the first Exchange Traded Fund (ETF) giving exposure to several African fixed income markets. AFMI aims to stimulate the development of African domestic bond markets by providing a source of funding for local borrowers whilst also creating a new asset class of African fixed-income securities.

- **The Asian Development Bank is working to promote "green" local currency bonds for infrastructure development in ASEAN+3.** It is planning to establish a facility to provide: (i) advisory services for potential issuers to comply with the green bond guidelines issued for their respective markets; and (ii) a grant to offset the external review costs of a green bond issue.

- **The European Bank for Reconstruction and Development (EBRD) has invested in local currency debt instruments such as Subordinated Tier II Capital Bonds in Poland and Romania.** These are aimed at testing local investor appetite for higher-risk instruments as well as legitimising the domestic markets as capital raising centres for banks. In addition to being an anchor investor in the Amundi IFC Green Cornerstone Bond Fund, EBRD is also developing a Green Bond Framework to allow investment in green corporate bonds that adhere to Green Bond Principles.

18. In late 2017, the World Bank Group launched the "Maximizing Finance for Development (MFD)" initiative, which calls for it to help EMEs maximize their development resources by drawing on private financing and sustainable private sector solutions while still meeting the highest environmental, social, and fiscal responsibility standards. The MFD initiative recognizes the importance of strengthening LCBMs across the spectrum of EMEs as one important means of stepping up the availability of private financing available for development purposes. The MFD initiative also complements capital market development efforts and technical assistance provided by the IOs.[4]

[4] Including the World Bank/IMF/EBRD/OECD Diagnostic Framework, the Financial Sector Reform and Strengthening Initiative (FIRST), the IMF/World Bank Debt Management Facility-II Multi-donor Trust Fund, the Compact with Africa (CwA) and bilaterally-funded capacity development initiatives

19. Through the International Development Association (IDA)'s IFC-MIGA Private Sector Window (PSW), the World Bank Group has recently developed a key new tool to strengthen efforts to mobilize private sector investment in low income and fragile economies. As part of the IDA 18 replenishment round, IDA Executive Directors approved the creation of a new USD 2.5 billion PSW to attract private sector investment for IDA-eligible countries, with a focus on those countries that are fragile and/or conflict affected. The PSW backstops or blends with Multilateral Investment Guarantee Agency (MIGA) guarantees or IFC investments to support private sector investments. The PSW also complements and supports associated technical assistance efforts to bolster the development of local capital markets to create sustainable pools of long term finance.

20. In April 2017, the World Bank and IFC launched the Joint Capital Markets Program (J-CAP) initiative, affirming World Bank Group commitment to expanding technical assistance to bolster domestic capital markets in target countries. The J-CAP initiative mobilizes experts across the World Bank Group to strategically sequence advisory services and demonstration transactions, thereby unlocking synergies and creating systemic market impact. The J-CAP initiative has identified eight focus countries and one sub-region in which its programs will be implemented, including Argentina, Bangladesh, Indonesia, Kenya, Morocco, Peru, South Africa, Vietnam, and the WAEMU region.[5] Since its launch, J-CAP has produced joint action plans in Bangladesh, Morocco, and WAEMU. These joint plans have been a crucial first step, identifying not only the potential synergies between advisory services and demonstration transactions, but also identifying capital market areas with the greatest potential for development. Work areas include the development of money markets, the government yield curve, and secondary market liquidity, as well as more sector-specific activities, such as on infrastructure (e.g., municipal bonds, project bonds), housing (e.g. REITs, covered bonds) and SME finance (e.g. reverse factoring, SME loan securitization). J-CAP is also working to establish mechanisms for sharing knowledge and lessons.

21. The IMF and World Bank continue to provide significant technical assistance in debt management involving bond market development, supported by multi-donor trust funds. The Debt Management Facility (DMF) II, implemented jointly by the IMF and World Bank in April 2014, provides capacity building to support growth and poverty reduction in eligible developing countries by strengthening their capacity to manage debt. DMF II is a World Bank-IMF partnership, and incorporates a wide range of activities, including implementation of the Debt Sustainability Framework (DSF), development of domestic debt markets, international capital market access, debt portfolio risk management, and subnational debt, as well as an increased focus on regional and e-training. The Financial Sector Reform and Strengthening Initiative (FIRST) also provides TA to promote sounder financial systems, including financial sector development.

22. TA in local currency bond market development is also supported through several bilateral initiatives. In addition to the work of the DMF, TA in debt management and bond market development has been supported through bilateral initiatives funded by Japan (Strengthening

[5] The countries were selected based on a set of indicators, including macroeconomic stability, political commitment, income level, and size. Potential new focus countries could be added over the next few years.

Regional Public Debt Management), Canada, and SECO in Switzerland (the Government Debt and Risk Management Program offered by the World Bank Treasury).

B. Local Currency Debt Issuance by IFIs

23. IOs have also continued their catalytic role as an issuer of bonds in EM and LIC local currencies along with several MDBs, both in domestic and in international capital markets. These risk-free instruments can play a catalytic role in the development of LCBMs by establishing a benchmark for lower-rated issuers. Taking the World Bank and IFC as examples, the World Bank has executed funding transactions in 32 emerging markets and frontier currencies so far, while the IFC has issued local currency bonds in onshore or offshore bond markets of more than 20 countries.

24. The World Bank has raised funds in 32 emerging markets and frontier currencies covering all regions. The biggest local currency transactions have been executed in Brazil, China, India, Mexico, Poland, Russia, South Africa, and Turkey:

- In EMEA, the World Bank has had 1,016 fund raising transactions in 16 currencies amounting to more than USD 37 billion. South Africa accounts for more than half of those transactions, with others including Poland, Russia and Turkey. Other markets in which the World Bank has issued local currency bonds are: Botswana, Ghana, Kuwait, Nigeria, Uganda, and Zambia, in the Middle East and Africa; and the Czech Republic, Hungary, and Romania in Europe.

- In Asia, the World Bank has had 394 transactions amounting to USD 12 billion. The Indian rupee accounts for the largest share, but other significant issues include China, Malaysia, and South Korea. There has also been issuance in Philippines, Kazakhstan and Thailand.

- In Latin America, the World Bank has tapped 7 local currency markets in 483 transactions. The total amount raised was USD 16 billion. The largest transactions have taken place in Brazil and Mexico, with smaller transactions in Chile, Colombia, Peru, and Uruguay.

25. The IFC has raised funds in 23 currencies in FY 2017, totaling the equivalent of USD 3.6 billion, and 20 currencies year-to-date in FY 2018, totaling USD 4.9 billion equivalent. IFC's biggest local currency transactions in 2017 were in Brazil, Russia, Turkey, and India.

26. In 2017, the EBRD Treasury also issued EUR 680 million worth of bonds denominated in or linked to 11 local currencies. Utilizing the Bank's AAA rating, the Bank has managed to arrange a much greater selection of local currency products at highly competitive prices and advantageous maturities to finance end borrowers, including inaugural transactions in Uzbekistani som and Belarusian ruble.