The World Bank Group's Support to Capital Market Development

IEG
Independent Evaluation Group

WORLD BANK GROUP
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WHAT WORKS

The World Bank Group's Support to Capital Market Development

Main Report

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Contents

CONTENTS V

ACKNOWLEDGMENTS IX

ABBREVIATIONS I

OVERVIEW V

MANAGEMENT ACTION RECORD XIX

1. CONTEXT, SCOPE AND APPROACH 1

Capital Markets and the Current Development Agenda 1
Bank Group Strategy toward Capital Market Development 3
Capital Markets, Economic Growth, and Poverty Alleviation 3
IEG's Evaluation of Capital Markets: Objectives, Audience, and Evaluation Questions 5

Portfolio Identification and Country Selection 8

Analytic Underpinning in FSAPs:A Diagnostic Approach 8
Reflection of Capital Markets Issues in Country Strategies and Country Programs 10
FSAPs and Country Strategies: A Summary of Findings 12

2. INSTRUMENTS: BUILDING BOND MARKETS 13

Building Bond Markets: Core Clusters of Operational Interventions 13

GEMLOC – Global Emerging Markets Local Currency Bond Market program 15
ESMID - Efficient Securities Markets Institutional Development Program 19
Other Bank Group Interventions 23

Bond Market Development: Links to Country Strategies and Sequencing over Time: 24
Building Bond Markets Through World Bank and IFC Treasury Operations 27

Evaluative Comments: Contributions of Bank Group Treasury Operations to Client Capital Market Development 33

Bond Markets - A Summary of Findings 38

3. INSTRUMENTS: PUBLIC AND PRIVATE EQUITY 40

Encouraging Private Equity – IFC 42

PE Funds in IFC – An Overview 42
Private Equity Funds – Evidence from IEG Country Case Studies 44

Private Equity – A Summary of Findings 45

4. INSTRUMENTS: MORTGAGE-BACKED SECURITIES AND MARKET-BASED HOUSING FINANCE 47

Developing Market-Based Finance for Housing 48

Secondary Markets: Securitization, Mortgage Insurance, and Covered Bonds 49
Primary Market Instruments: Liquidity Facilities 54

Housing Finance and Capital Markets - A Summary of Findings 55

5. INVESTORS: INSURANCE AND PENSION FUNDS 56

The Bank Group and Institutional Investors: Contributions to Capital Market Development 58

FSAPs: Diagnostics and Core Principles Assessments 58
Operational Support for the Pensions Sector 59
Operational Support for Insurance 62
Gaps between Diagnostics and Country Programs 65

Institutional Investors and Capital Markets – A Summary of Findings 68

6. CAPITAL MARKET INFRASTRUCTURE 70

Establishing Sound Legal and Regulatory Frameworks 71

Focus and Objectives of the Sampled Interventions 71
Relevance of the Interventions 72
Results – Outputs and Outcomes 75
Capital Market Infrastructure: Regulation and Development – A Summary of Findings 77

Corporate Governance: Support Extended by the Bank Group: an IEG Assessment 78
Securities Settlement Systems 79

The World Bank's Regional and Global Role: Setting Standards for Payments, Clearance, and Settlement 80
Payments and Securities Clearance and Settlement: Project Level Portfolio Review 82
Payments and Securities Clearance and Settlement: Country-Level Assessments 85
Market Infrastructure: Securities Settlement Systems - A Summary of Findings 87

7. REAL SECTOR SUPPORT: INFRASTRUCTURE FINANCE AND THE ENVIRONMENT 89

Supporting Infrastructure Finance through Capital Markets Instruments 90

Infrastructure Finance and Capital Markets Instruments - World Bank 91
Infrastructure Finance and Capital Markets Instruments – IFC 96

Green Bonds and Theme Bonds 98
Real Sector Support at the Bank Group and Capital Markets Instruments - A Summary: 99

8. SUSTAINABILITY, QUALITY, MONITORING, AND COORDINATION 101

Funding the Capital Markets Work Program 101
Assessing Work Quality 109

Limited Evaluative Evidence 109
Limited Basic Documentation 111
Monitoring and Evaluation 112

Client Interaction and Coordination within the Bank Group 113

Coordination Within the Bank Group 114

Sustainability, Quality, Monitoring and Coordination – A Summary 116

9. CONCLUSIONS AND RECOMMENDATIONS: WHAT WORKED, WHAT DIDN'T, AND WHAT'S NEXT? 120

REFERENCES 127

ENDNOTES 139

CONTENTS

APPENDIX VOLUME: THE WORLD BANK GROUP'S SUPPORT TO CAPITAL MARKET DEVELOPMENT APPENDIXES

TABLES

Table 1.1 Examples of Supplementary Evaluative Questions Specific to Individual Areas of Support 6
Table 1.2 FSAP Follow up in IEG's Capital Markets Portfolio: Advisory and Lending Services....10
Table 1.3 FSAP References in CAS Documents: Timeframe of Delivery and Nature of Reference....11
Table 5.1 FSAP Specialized Reviews of Pensions and Insurance: 2001 – 2015 59
Table 5.2 IEG's Portfolio Review of WB Pensions Interventions – Capital Markets (2004 - 2015)....60
Table 5.3 WB Pensions Interventions: Relevance for Capital Market Development (2004-2014)....60
Table 5.4 IEG's Portfolio Review of WBG Insurance Interventions and Capital Markets (2004-2015)....65
Table 6.1 Capital Markets Regulation and Development: Availability of Documentation (29 Projects)....71
Table 6.2 Capital Markets Regulation and Development: Project Relevance – CAS / CPS Context....73
Table 6.3 Capital Markets Regulation and Development: Project Relevance – Links to FSAPs 74
Table 6.4 Capital Markets Regulation and Development: Project Relevance – Completion Reports 75
Table 6.5 Securities Settlement Systems and the WB Payments System Portfolio (2004-2014) 82
Table 8.1 Funding Sources for the WBG Advisory Services for 86 Bond Market Interventions (2004-2014) 105
Table 8.2 FIRST Projects Relevant to Capital Markets (2002-2015) 107
Table 8.3 IEG Capital Markets Portfolio: Importance of FIRST (2004-2014) 107
Table 8.4 Capital Markets Portfolio – Projects with Evaluation 109
Table 8.5 Capital Markets Portfolio – Work Quality Ratings (Avg. Rating) 110
Table 8.6 Capital Markets Portfolio – Documentation Availability by Topic Area 112
Table 8.7 Quality of the Results Framework and Monitoring and Evaluation – Lending and NLTA....113

FIGURES

Figure O.1 Scope of Evaluation: Areas of World Bank Group Support.... vi
Figure 2 Results Chain—Bank Group Support to Capital Markets: Activities, Outputs, and Outcomes 7
Figure 2 Bank Group Bond Market Interventions (FY04–14) – Basic Characteristics 14
Figure 3 Bank Group Bond Issuance – Total and Non-Core Currencies (Year and Currency)....29
Figure 4 Bank Group Bond Issuance – Total Issuance and Non-Core Currencies....30
Figure 5 Institutional Investor Portfolio Diversification in Kenya: Insurance and Pensions 66
Figure 6 Bank Group Infrastructure Interventions and Capital Markets Related Financing (FY04-14) 91
Figure 7 Financial Sector Funding and Capital Markets Funding (2004–14)....102
Figure 8 Changes in the Relative Share of Financial Sector Work at the Anchor:....103
Figure 9 Contributions of Non-BB Budget to FPD work....104

BOXES

Box 1.1 What are Capital Markets and What is the Scope of the IEG Evaluation? 4
Box 2.1 The Three Prongs of the GEMLOC Program....15
Box 2.2 Local Bond Market Development and the Bank Group– Vietnam....26
Box 2.3 IBRD and IFC Risk Management Tools for Clients: Deepening Domestic Capital Markets....28
Box 2.4 IBRD Treasury Bond Issues and Local Capital Market Development....31
Box 2.5 IFC Treasury Bond Issues and Local Capital Market Development 32
Box 2.5 IFC Treasury Bond Issues in Indian Rupees: Impact on Capital Market Development 36
Box 3.1 World Bank Engagement in Stock Market Development – Select Countries....41
Box 3.2 IFC's Investments in Private Equity: An Overview....42
Box 3.3 IFC and PE Development in Nigeria....43
Box 3.4 IFC and Private Equity Development in Select Countries....44

Box 4.1 IFC's Securitization Transactions.......... 47
Box 4.2 Housing Finance and Capital Market Development.......... 48
Box 4.3 IFC and Mortgage Securitization in Colombia.......... 50
Box 5.1 Pensions and Insurance: Knowledge Products on Linkages with Capital Markets.......... 57
Box 5.2 Institutional Investors: Bank Group Support in Colombia.......... 67
Box 6.1 Examples of Select Capital Market Regulation and Development Interventions.......... 72
Box 6.2 Securities Clearance and Settlement: Significant Early World Bank Work.......... 80
Box 6.3 Global Fora on Payments Systems: World Bank Participation.......... 81
Box 6.4 Projects with Relevant Payments Elements – Results Achieved.......... 84
Box 6.5 World Bank Support for Payments and Securities Settlement Systems: Country Perspectives. 85
Box 7.1 Project Bonds and Infrastructure Finance.......... 90
Box 7.2 World Bank Infrastructure Lending: Support for the Use of Capital Markets Instruments.......... 91
Box 7.3 World Bank Supported Project, Corporate and Sovereign Bonds for Infrastructure Finance.......... 95
Box 7.4 MIGA Guarantees for Bond Instruments and Guarantees for Infrastructure.......... 96
Box 7.5 IFC: Infrastructure Support Through Bond Purchases.......... 98
Box 8.1 FIRST – An Introduction.......... 106
Box 8.2 M&E Frameworks for Capital Markets Projects.......... 113

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Abbreviations

AAA	analytic and advisory activities
ABMI	Asian Bond Market Initiatives
ABS	asset-backed securities
ADB	Asian Development Bank
AfDB	African Development Bank
AMC	asset management company
AS	advisory services
BETF	Bank-executed trust fund
BIS	Bank of International Settlements
CAB	Climate Awareness Bond
CAS	Country Assistance Strategy
CAT	Catastrophic Risk (bonds)
CBR	Central Bank of Russia
CCD	certificate of capital development
CEMLA	Center for Latin American Monetary Studies
CG	corporate governance
CHMC	Colombian Home Mortgage Corporation
CMA	Capital Markets Authority (Kenya)
CIS	Commonwealth of Independent States
CPI	consumer price index
CPMI	Committee on Payments and Market Infrastructures
CPS	Country Partnership Strategy
CSD	clearance, settlement, and depository systems
DA	distressed asset
DARP	Debt and Asset Recovery Program
DFI	development financing institution
DFID	Department for International Development (UK)
DMF	Debt Management Facility
DOTS	Development Outcome Tracking System
DPL	development policy loan
DPR	diversified payment receipts
EAC	East African Community
EAP	East Asia and the Pacific
EBRD	European Bank for Reconstruction and Development
EFO	externally financed output
EIB	European Investment Bank
EMDE	emerging markets and developing economies
EMRC	Egyptian Mortgage Refinance Company
ESMID	Efficient Securities Markets Institutional Development program
ETF	exchange-traded fund
F&M	Finance and Markets
FABDM	Financial Advisory and Debt Management program
FDN	*Financiera de Desarrollo Nacional* (National Development Fund)
FIRST	Financial Sector Reform and Strengthening Initiative
FOVI	*Fondo de Operacion y Financiamiento Bancario a la Vivienda* (Mexico)

ABBREVIATIONS

FPD	Finance and Private Sector Development
FSAP	Financial Sector Assessment Program
GBP	Green Bond Principles
GEMLOC	Global Emerging Markets Local Currency Bond program
GEMX	Global Emerging Markets Local Currency sovereign bond index
G20	A group of 20 major economies including 19 countries and the European UnionGDP gross domestic product
GOI	Government of India
IAIS	International Association of Insurance Supervisors
IBRD	International Bank for Reconstruction and Development
ICRR	Implementation Completion and Results Review
IDA	International Development Association
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group
IFFIm	International Finance Facility for Immunization
IFC	International Finance Corporation
IFI	international financial institution
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPO	initial public offering
ISDA	International Swap and Derivatives Association
LAC	Latin America and the Caribbean
LNG	liquefied natural gas
MDB	multilateral development banks
MBS	mortgage-backed securities
MIGA	Multilateral Investment Guarantee Agency
MILA	*Mercado Integrado LatinoAmericano* (Integrated Latin American securities exchange)
MosPrime	Moscow Prime Offered Rate
M&E	monitoring and evaluation
NBFI	nonbank financial institution
NMRC	Nigeria Mortgage Refinance Company
NPL	nonperforming loan
NSE	National Stock Exchange (Kenya)
OECD	Organisation for Economic Co-operation and Development
PBCE	project bond credit enhancement
PCG	Partial Credit Guarantee
PCR	Project Completion Report
PDM	public debt management
PE	private equity
PMI	primary mortgage institution
PPP	public-private partnership
PRI	Principles for Responsible Investment
PSD	private sector development
RAS	Reimbursable Advisory Services
ROSC	Reports on Observance of Standards and Codes
RTGS	real-time gross settlement
RUONIA	the Ruble Overnight Index Average
SEB	Skandinaviska Enskilda Banken
SEC	Securities and Exchange Commission
SECO	Swiss State Secretariat for Economic Affairs
SIDA	Swedish International Development Cooperation Agency
SME	small and medium enterprise

SOFOLs	*Sociedades Financieras de Objeto Limitado* (Mexico)
SPV	special-purpose vehicle
SRO	self-regulatory organization
SSA	Sub-Saharan Africa
SSS	Securities and Settlements System
TA	technical assistance
TC	*Titularizadora Colombiana*
TD	Treasury Department
TMD	Treasury Mobile Direct project
TTL	task team leader
UN	United Nations
USAID	United States Agency for International Development
VBMA	Vietnam Bond Market Association
WHI	Western Hemisphere Initiative
XPSR	Expanded Project Supervision Report

Overview

This evaluation of the World Bank's Group's contributions toward client countries' capital market development comes at a strategic juncture when Bank Group commitment to help mobilize long-term finance for development has grown increasingly prominent. Motivated by the recognition that long-term finance is limited, attention in the development community has turned toward market-based solutions. Well-functioning capital markets help channel capital toward areas that are essential for development and poverty reduction.

Capital markets, for the buying and selling of long-term *security instruments*, enable issuers (supply side) and investors (demand side) to trade such instruments within a certain market infrastructure. Bank Group support encompassed interventions that spanned virtually all these areas of capital market development.

On the issuance side, early emphasis on local currency government bond markets reflected the Bank Group's strategy as well as global concerns following the Asian crisis. The bank Group's response was innovative, albeit only partially successful. Attempts to develop markets through Treasury bond issues could have had more sustained impact if linked to operational support. The International Finance Corporation (IFC)'s move away from support for the development of public stock markets toward private equity partly reflected diminishing equitization. Its frontier role in private equity helped support local fund managers, though initial public offering (IPO) exits were rare and financial returns were mixed. More can be done with equity financing models for small business that involve new market technologies. The Bank Group's role in the development of instruments such as asset-backed and mortgage-backed securities has been necessarily limited by the level of development of client countries' markets; its interventions were sometimes ahead of their time. Bank Group use of capital markets instruments or project bonds for infrastructure financing in its own transactional support was small; within this small universe guarantees were an important instrument.

On the investor side, most operational interventions in the areas of insurance and pensions had little focus on asset management or capital market investment, although this could have aided their own sustainability. There were missed opportunities in terms of linkages between issuers of securities and institutional investors.

In regard to market infrastructure, objectives in developing regulations were largely achieved within countries, although bottom-up program selection may not have optimized the Bank Group's global impact. In the payments and securities settlement area, the Bank Group's advice was recognized to be valuable and influential in global fora; however, synergies between country, global, and regional levels were difficult to realize. While some activities had little discernible impact, this reflected in part the slow and difficult process of building markets and institutions.

While Bank Group support encompassed virtually all capital market segments, coherence across areas of engagement was weak in bringing together the demand, supply, and infrastructure sides of market development. Such fragmented interventions partially reflected prevailing Bank Group strategy, though a more comprehensive strategic approach is emerging. Significant reliance on a variety of external or unusual financing sources likely also contributed to fragmented program design, both within and across countries. Although recent adjustments in funding structures have partially strengthened opportunities to adopt more programmatic or comprehensive approaches within countries, issues of how choices are made across countries and program areas remain: avoiding duplication of learning, ensuring prioritization of countries that are most likely to benefit, and maintaining the role of cross-country or global programs.

Ultimately, the credibility and impact of this largely knowledge-based practice area rests on developing, maintaining, and disseminating information. The role of the Global Practice is fundamental to helping the

Bank Group transcend the typical country-driven model and move toward developing and maintaining cross-country and global knowledge that could enable the Bank Group to develop the capacity to contribute as an innovator and not only as a replicator. At a day-to-day level, there is also clear scope for improvement in knowledge management. This requires a multi-pronged approach, beginning with better document maintenance, better indicators in finance and markets databases, and closer program tracking.

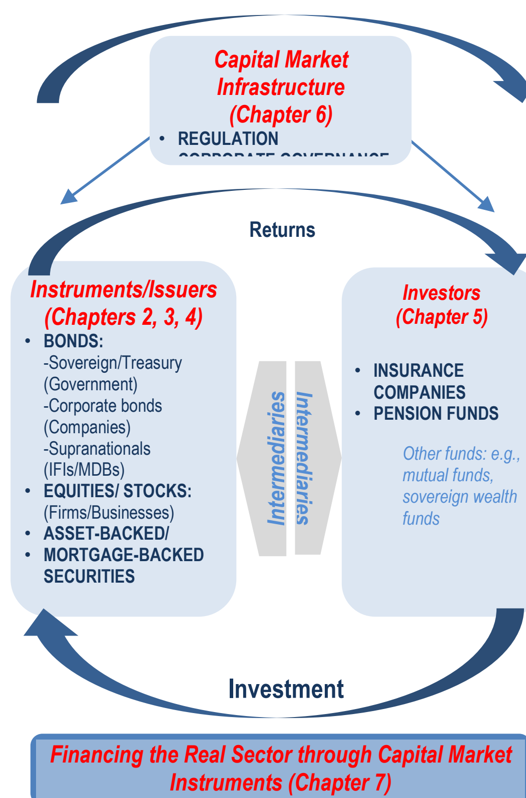
Motivation, Scope, and Approach

The year 2015 marked a milestone in global discussions on "financing for development," acknowledging the implications of the Sustainable Development Goals for mobilizing huge additional resource flows for development, as well as the need for countries to develop their own institutions and policies to mobilize resource flows that would complement concessional finance. As noted by the heads of international financial institutions (IFIs), "financing from private sources, including capital markets, institutional investors and businesses, will become particularly important." The Addis Ababa Action Agenda confirmed the commitment of the international community to "work towards developing domestic capital markets, particularly long-term bond and insurance markets" and "to strengthen supervision, clearing, settlement and risk management". It recognized "that regional markets are an effective way to achieve scale and depth not attainable when individual markets are small," and encouraged further growth in lending in domestic currencies by multilateral development banks.

Well-functioning capital markets help ensure the financial system's efficiency, stability, and risk management, preventing costly crises and helping channel savings toward capital that is essential for economic development and poverty reduction. Capital markets provide competition to bank finance, encouraging banks to increase their efficiency, and allowing households and firms to better manage risks associated with long-term investments. The World Bank Group and other IFIs have been well positioned to help countries develop enabling environments to strengthen domestic capital markets and institutions.

Capital markets comprise both public sector and private corporate ***issuers***, who issue a range of securities ***instruments***: bonds, or fixed-income securities; stocks or equities which are risk-sharing with variable returns and bundles of claims such as asset-backed or mortgage-backed securities (discussed in chapters 2, 3, and 4). They are long-term, with maturities of more than a year, and they are held by ***investors*** such as insurance and pension funds (discussed in chapter 5) that need to match their long-dated liabilities. Well-functioning markets require sound ***market infrastructure***—both "soft" aspects such as laws, regulations, and corporate governance and "hard" aspects such as systems for trading, clearance, and settlement (discussed in chapter 6). Specific capital markets instruments finance the ***real sector***, including infrastructure and the environment (discussed in chapter 7). The Bank Group has had interventions in all these areas (Figure 1).

Figure O.1 Scope of Evaluation: Areas of World Bank Group Support



Source: IEG.

In terms of strategic underpinning, elements of capital market development have long been acknowledged in the Bank Group agenda. The 2007 World Bank strategy clearly recognizes key elements, although interlinkages are less explicit. Since 2011, emerging IFC strategy toward capital market development reflects a recognition of the interlinkages, and proposes unified supply and demand approaches. The purpose of this evaluation is to assess Bank Group support to client countries for development of their capital markets across the full spectrum of associated activities.

EVALUATION QUESTIONS AND METHODOLOGY

The overarching evaluation question is:

- Has the Bank Group been relevant, effective and efficient in supporting the development of its client countries' domestic capital markets to deepen their *financial* systems, realize *real* sector development, and to support the achievement of itstwin goals of poverty alleviation and shared prosperity?

Given the heterogeneity of interventions, the evaluation constructs metrics to assess effectiveness in each of the main areas of focus: (i) capital market instruments or issuers; (ii) capital market infrastructure; and (iii) capital market investors (insurance and pension funds). The report also reviews (iv) the extent to which support for the use of capital market instruments is reflected in select areas of its own portfolio of real sector financing: infrastructure and the environment.

The Independent Evaluation Group (IEG) has used well-accepted qualitative and quantitative methods: structured portfolio analysis, category building and scoring benchmarked against international standards; structured interviews including with other IFIs, standard-setting bodies and market experts, external data from the Bank of International Settlements (BIS), Bloomberg, and other sources, triangulated with findings from five field visits.

PORTFOLIO: PROJECTS AND COUNTRIES

The evaluation focuses on Bank Group operational interventions in areas relevant to capital markets during FY04–14, using a succession of filters for identification and selection. The portfolio thus identified included 1,071 interventions; each is assigned to a primary thematic area of capital market development. Interventions showed a mild increase in average numbers over time. All observations were reviewed in the majority of market segments, and principal clusters were reviewed in a few segments, spanning at least 64 countries. Case study countries had additional purposive elements: no more than one country per continent, inclusion of countries at all income levels, and a high level of representation in the IEG portfolio. The countries thus selected were Colombia, India, Kenya, Morocco, and Vietnam.

FROM DIAGNOSTICS TO COUNTRY STRATEGIES

Although Financial Sector Assessment Programs (FSAPs) —the Bank Group's primary diagnostic tools for financial and capital markets--provided considerable diagnostic information on capital markets at the country level, in many countries there was limited follow up of critical findings.

IEG's review of 39 FSAPs in 20 countries finds that coverage of most areas relevant to capital market development was high, though coverage diminished over time. While focused most frequently on the regulatory framework or supervisory capacity, there was significant substantive discussion of themes relevant to capital market development. Despite these rich diagnostics, follow up interventions in FSAP countries only referred to FSAPs a quarter of the time on average. FSAPs themselves tended not to connect recommendations in individual areas to make overall blueprints for capital market development.

Country Assistance or Partnership Strategies (CASs or CPSs), in the same countries, frequently alluded in some capacity to FSAPs, but only a few offered clear, connective references between the FSAPs and the work program. CAS or CPS reports consistently expressed overall support for the financial sector, though support for capital

market development was lower and more variable, with some decline over time. Country case studies attest to the variability of the extent to which FSAPs were used to underpin countries' capital market development programs, from close congruence in Morocco and Colombia and consistency in Kenya, to negligible attention in India. Vietnam's capital market related work was directed largely by country demand; it did not have an FSAP report until 2014.

INSTRUMENTS

Bond Market Development

Bond market development formed the backbone of the Bank Group's capital market interventions. Early programs reflected innovation and risk taking, but achieved only partial success. More recent focus has moved toward corporate bonds, emphasizing the integrated development of markets and transactions in selected countries. There is a need to nevertheless safeguard successful multicountry government bond market development programs.

Both IBRD and IFC Treasury departments undertook local currency bond issues; in IFC an explicit objective was local bond market development. Both made innovative and pioneering issues, but market impact beyond demonstration effects is evident in only some cases. Achievement of scale and containment of risk and cost could limit IFC's operations. Integration with advisory interventions in bond market development, as done by other IFIs, could valuably be increased.

Bond market development, especially government bond markets, constituted the core of the Bank Group's focus on capital market development. The Bank Group adopted major innovative and large-scale programs for bond market development. Two clusters of work, under the Global Emerging Markets Local Currency bond (GEMLOC) and Efficient Securities Markets Institutional Development (ESMID) programs accounted for over half the number of projects and three-fourths of the total value of bond market advisory work.

The three-pronged flagship GEMLOC program for emerging government bond markets was successful at strengthening government bond markets, notably through the low cost and effective advisory support of its web-based Peer Group dialogues, together with other targeted as well as comprehensive interventions. GEMLOC's highly original second and third pillars, the GEMX index and the PIMCO-managed fund for emerging market sovereign bonds, sought to increase the attractiveness of the local currency sovereign bond asset class by tracking and investing in them. PIMCO transferred a part of its earnings back to the Bank Group for the financing of advisory services under the first pillar of GEMLOC. These were admittedly less successful. The GEMX index, while still in use, was not widely adopted, and the PIMCO fund did not succeed in attracting hoped-for large volumes of funds; it closed in 2015.

ESMID, entirely donor financed, aimed to complement GEMLOC through its focus on corporate and project bonds in selected markets, offering integrated solutions from addressing market barriers to bringing transactions to market. Its legal and regulatory agenda has been the most successful, and some success is emerging in increasing market activity. Market players report that they value the Bank Group's's "honest broker" role and its undertaking prior reforms to create a conducive environment that could facilitate transactions.

ESMID undertook useful groundwork toward regional capital market integration in Africa—a difficult agenda. It had less presence in the Latin American *Mercado Integrado Latinoamericano* (MILA) initiative *)*. Meanwhile, the next phase of bond market development in selected countries is beginning with the Bank's "Deep Dive" program, too early to evaluate, which proposes, a fortiori, integrated solutions across all market segments from issuers to investors and including legal infrastructure, aimed at the eventual achievement of actual transactions.

Beyond these programs, other bond market support is illustrated at the country level, where the Bank Group's interventions were often reinforced by project preparation through the FIRST (Financial Sector Reform and

Strengthening Initiative) Trust Fund in addition to GEMLOC, and through programmatic lending. Typically though not invariably, programs were underpinned by FSAP guidance on design. Close links to the FSAP are present in Morocco and, to a significant degree, in Colombia and Kenya, although in India, in the absence of comprehensive dialogue and sustained engagement some core areas received limited attention. In Vietnam, there was no FSAP until 2014, yet there was successful bond market engagement emanating largely from country-driven demand. Most countries with the Bank Group's bond market interventions show progress in their bond market development to which the contribution of the Bank Group has been significant although difficult to quantify precisely.

IBRD/IFC Treasuries' Local Currency Bond Issues

Both IFC and IBRD Treasuries issued local currency bonds, mostly offshore, largely for funding purposes, but also, in the case of IFC, with the development of local bond markets as one objective. IFC's issuance of onshore bonds has necessarily been more active, because it is linked to its business needs (local private investment), its very careful management of currency risk, and its mandate, since 2013, of local capital market support.

Both Treasuries have undertaken several innovative transactions. Programmatic issuance is valuable and can help establish local AAA benchmarks and build a yield curve, as IFC's effective issuance of offshore Rupee "Masala" bonds has demonstrated. Demonstration effects have been positive but impact in domestic markets also depends on relative scale.

Experience in other multilateral development banks (MDBs) shows impact can be increased not only through programmatic engagement but also, as in EBRD and ADB, through more systematic integration of an issuance program with advisory work. Bond issuance by MDBs, of itself, cannot create a viable local capital market unless a country is fully committed to a broad range of reforms. When these conditions are in place, together with investor confidence, the need for local currency bond issues by MDBs diminishes, and the role of IFI bond issues will be genuinely catalytic.

Public and Private Equity

The Bank Group extended limited support to the development of public equities markets over the evaluation period, partly reflecting diminished "equitization." IFC's support to intermediaries and infrastructure for public stock markets also declined; the latter is more debatable. World Bank support, mostly legal or regulatory in nature, was often a part of an FSAP follow-up. By contrast. IFC's role in private equity accelerated in the 2000s, following the setting-up of its dedicated funds management department.

Although IFC committed a significant volume of investment to its emerging private equity funds, as the largest emerging market "fund of funds," IFC's role has been small in terms of global investment volume. During 2004–14, IFC represented 1 percent of total capital raised globally (8–10 percent of the funds in which IFC participated) for investment in emerging market private equity funds, though given that IFC's average share in these funds was around 12 percent, the total value of these funds, in which IFC was a significant minority investor, was 8.5 times higher. IFC played a countercyclical and frontier market role. Its share of global commitments increased to 2 percent in 2009–10 in the wake of the crisis, later dropping back to 1 percent. The financial performance of IFC's private equity investments has been mixed, which constrains them from attracting new investment. Forty four percent of the funds originated during 2004–09 had negative returns.

As the private equity industry has matured in client countries, IFC's role as a fund provider has diminished, though it continues to play a catalytic role supporting first-time fund managers and, especially, in setting high environmental, social, and governance standards. Yet its direct impact on the development of public securities markets is negligible, and most of the time, was not an objective. IPO exits are not a feasible strategy in most client countries and are consequently rare. PE development can at best have an indirect and long term impact on capital market development.

Mortgage-backed Securities for Housing Finance

Both IFC and the World Bank had significant interventions in the area of housing finance, focused primarily on banks. In a subset of countries, such as Egypt, Ghana, Nigeria, and Tanzania, the Bank Group supported the use of mortgage liquidity facilities, which issue their own bonds to provide financing to banks, and in Brazil, India, and Morocco is supporting the introduction of covered bonds—effectively, a precursor of the mortgage-backed security. In a few countries, the Bank Group also supported the development of secondary-market mortgage instruments.

IFC was pivotal in the development of mortgage-backed securities in Colombia and Russia, where its interventions were well-designed, mutually reinforcing, progressive, and sustained. Its contributions in India have been innovative and noteworthy in a difficult environment, but there has been limited engagement on core underlying obstacles. IFC's investments to support securitization in Brazil made limited headway. IFC also had positive contributions toward the development of mortgage-backed securities in Mexico, though the institutions proved unsustainable when faced with the global crisis.

Securitization, or secondary-market instruments, are not the first choice in many Bank Group client countries. In principle, liquidity facilities and products such as covered bonds may be more viable options; however, these, too, need to be carefully screened for market readiness: the macroeconomic environment and the financial sector and institutional setting. In several Bank Group client countries (for example Egypt, Ghana, Peru, Tanzania,) markets were not ready for these instruments, either because of a weak environment or a premature model of intervention, where existing market infrastructure could not support such instruments, or because of lack of government or sponsor commitment. Yet, the Bank Group was able to make significant upstream contributions by supporting the development of appropriate legal and regulatory frameworks for such instruments and providing advisory work on design which could ultimately be useful.

INVESTORS

Insurance and Pension Funds

Institutional investors can be a powerful vehicle for capital markets development, and the Bank Group's strategies on insurance and pensions affirm support for this role. Although the World Bank has made significant intellectual contributions in this direction, capital market support via institutional investors has not been a strong element of World Bank operations. Most interventions in insurance have a product or risk-management focus. Pension interventions focus, understandably, on issues of coverage and fiscal sustainability, possibly reflecting the dominance of public pensions in many client countries and many client countries' nascent multi-pillar pension systems.

IFC advisory services were product development focused, usually for specific micro insurance products, highlighting expansion of access. IFC investments in insurance companies provided upstream support for capital markets through leveraged fund accumulation. Strengthened regulation and development in insurance and pensions have provided indirect upstream support for capital markets development.

Downstream attention to fund management or asset allocation has received negligible attention, although this is necessary for their sound management, even apart from capital market development considerations. There was little focus on asset management; thus, opportunities were missed to link the Bank Group's interventions in the areas of insurance and pensions with capital market development.

Evidence from IEG field visits suggests that in many, though not all countries, much valuable diagnostic work on insurance and pensions that was undertaken through the FSAP program was rarely operationalized—though exceptions exist. Country strategies in these countries also made little reference to contractual savings in the context of capital market development, although Colombia is a clear exception, and the Morocco program has also made efforts to reflect this issue. There is a new impetus in a few countries, especially in the wake of the ESMID program, to

refocus on the accumulation and investment aspects of contractual savings, for infrastructure finance. So far, results suggest that there has been little change (as Kenya's experience illustrates).

The World Bank Pension Reform evaluation (IEG 2006c), similarly showed that diversification of pension funds' investments was not achieved.

Findings serve to illustrate that links between institutional investors and capital market development may be taken for granted, and that there has been negligible direct effort at the Bank Group to ensure that such links actually operate, by looking at asset management. The analysis also suggests divergence between the "public" incentive for capital market development, and "private" concerns about liquidity, returns, and risk aversion, which need to be recognized explicitly. Moreover, in a risk-based capital framework, greater attention to the nature of the portfolio of assets held would be a part of overall review of soundness. If capital market development is an institutional objective, greater thought could be given to harnessing the insurance and pensions agenda to support this objective.

INFRASTRUCTURE FOR CAPITAL MARKETS

Regulation and Development

The heterogeneous projects focusing on legal, regulatory, or development issues regarding capital markets generally appear relevant in a country context, often reflecting FSAP findings. There remain questions as to whether the country-driven model on its own is adequate, for strategic global prioritization—for example, building stand-alone national securities markets in relatively small countries. The majority of output was of good quality, and some was certainly adopted. Outcomes are more difficult to assess, and allowances must be made for long lags in terms of final results in the legal and regulatory area. In many cases drafted laws or regulations were completed but not acted upon for years, or not at all. Better World Bank monitoring of long-term change is also desirable because completion reports are usually done too soon after the interventions. It is difficult to see how much market practice has really changed as a result. In this respect the periodic FSAPs might provide a vehicle for considering and assessing longer-term outcomes.

Project design in many cases reflected traditional best practice in advanced countries e.g. with regard to supervision, and was not well adapted to specific country circumstances. The challenges of trying to impose sophisticated international best practices on a market in its infancy were clearly illustrated in the case of one project in the West Bank and Gaza. Similarly, efforts to develop sophisticated securities products, such as asset-backed securities in Sri Lanka, may have been relatively complex for the country.

Corporate governance

Corporate governance is an integral part of policy for capital market development. Good corporate governance is essential for the effective functioning and growth of equities markets, to protect investors, and to ensure that savings are effectively channeled to corporations that need capital for innovation, job creation, and growth.

Most client countries made progress in their corporate governance environments. Some did so with limited support from the Bank Group beyond diagnostics. Deteriorations in corporate governance in some prominent Bank Group clients was the effect of known external factors. In most countries, the World Bank's Corporate Governance Reports on Observance of Standards and Codes (CG ROSC) assessments, like FSAPs, were able to provide information for designing the Bank Group's corporate governance interventions, though in over a third of countries both the World Bank and IFC programs for corporate governance were likely unrelated to these assessments.

Progress has been uneven across corporate governance areas. Success was attained in accounting and auditing, and independence of external auditors. Gains are noticeably fewer in difficult areas such as 'disproportionate control disclosure' or 'shareholders' rights to participate in fundamental decisions,' as well as with respect to enforcement. Structural factors limited the extent to which change could be realized in some countries, (for example, owing to dominance of

some industrial groups, poor internal collaboration, stalled decision making, or political factors).

Payments and Securities Clearance, Settlement, and Depositories

The World Bank has played a pioneering role in promoting the modernization of payment systems, highlighting the need to integrate securities settlement within the overall payments framework, and contributing to the formulation, implementation, and dissemination of global standards on financial infrastructure. The World Bank played a unique role in reflecting emerging-market perspectives to standards setters, thus enabling the standards to be globally applicable, and in undertaking assessments against these standards through the FSAP process.

In successive regions (starting with the Western Hemisphere Initiative, followed by the Arab Payments Initiative, and others) the World Bank supported the building of regional knowledge forums as institutions that brought together regional regulators in the payments area and created momentum for peer learning and the cross-fertilization of ideas. Regional forums led to country-level diagnostics and were followed by projects for systems enhancement.

Interventions at the level of individual countries usually focused on sound and efficient payment systems overall that reduced systemic risk and increased efficiency, especially through projects on the legal framework for payments, oversight, and "real-time gross settlement" (RTGS) systems. To the extent that securities clearance and settlement were a focus, the emphasis was generally on government and public securities, because of their use as collateral in intraday liquidity facilities, and not primarily for capital market development per se. Such designs often reflected the limited overall capital market development of many client countries.

Most such projects appear to have been well designed, reflecting preceding diagnostic work, often through FIRST or FSAP recommendations. The World Bank was able to adjust the relevance of its designs over time and across countries to maintain its relevance in different country contexts. Long-term engagement helped. Documents provide limited evidence on outputs or outcomes; most, but not all, appear anecdotally to have achieved desired outputs. It is difficult to capture outcomes such as risk reduction or efficiency increases. Delivery of technical assistance and legal and regulatory advice was reputedly of high caliber, though the degree of its uptake was sometimes unclear.

FINANCING THE REAL SECTOR

Infrastructure Finance

While the Bank Group provided advisory support for the use of capital markets instruments in infrastructure financing, its direct support to capital markets transactions in its own operations has been more limited in the move toward more holistic public-private partnership (PPP) frameworks.

Specific operational support to infrastructure finance through project bonds or bond guarantees has been limited. The noticeable decline in the offer of World Bank bond guarantees for infrastructure may reflect difficulties with project finance in the wake of the global financial crisis.

Support for the development of capital markets–based infrastructure finance have been most evident in the broad-based bond market advisory services of the Bank Group, notably the ESMID and more recently, the "Deep Dive" programmatic initiatives. These programs have tried to bring together the multiple elements of bond market development, institutional investor involvement, and the creation of PPP frameworks, to support project finance with capital market involvement, with some recent success.

The Environment and Other Priorities: Green Bonds and Theme Bonds

Bank Group Treasuries have directly supported other priority sectors of activity through the issue of dedicated "thematic" bonds. Such bond issues "ring-fenced" suitable ongoing and new investments, and helped to showcase and win support for the substantial portfolio of Bank Group work in this area. However, they do not lead to incremental funding, because these issues

are integrated with overall Bank Group funding arrangements with no noticeable difference in funding costs or terms. However, these programs attracted new investor classes and diversified the Bank Group funding base.

The Bank Group was not the first IFI to issue green bonds, and has not been the largest. In fact, it now accounts for only a tenth or so of the global green bond market. Although the Bank Group has rapidly come to account for only a modest share in global green bond issues, it has played an important catalytic role, especially through its assistance in the development of the Green Bond principles, where it once again leveraged its convening power to define a new global asset class. In IFC's other theme bonds, the Banking on Women bonds and the Inclusive Business bonds, the "ring-fencing" structuring was identical to that of the Green bonds.

IBRD also made innovative contributions through its catastrophic risk bond; a creative structure for insurance against natural disaster, as well as through its Treasury management services for the Vaccine Alliance, GAVI's "vaccine bonds," including the innovative *sukuk*.

PROGRAM FUNDING AND SUSTAINABILITY

World Bank Funds and Trust Funds

The future sustainability of capital markets work requires stable funding. Although the finance and private sector development program maintained or even increased its share of overall funding within the World Bank's budgetary environment, this reflected a disproportionately high and growing reliance on trust funds. The capital markets segment of work was more reliant on external funding than the finance and private sector development network as a whole.

Besides World Bank-executed Trust funds, however, the finance and private sector development network and, especially, the capital markets practice, made use of funding from additional unconventional sources normally classified as World Bank budget: externally financed outputs and reimbursable advisory services. In addition, the capital markets practice (and especially the bond market segment) enjoyed funding from GEMLOC which has now come to an end. The FIRST trust fund has been a prominent funding source, together with a limited number of large donors, who have financed the ESMID program and will fund the next wave of bond market work.

While the high level of external funding suggests commendable donor and partner support for the significance and quality of the work undertaken, it has consequences for the coherence and quality of the work program. The country-led and fragmented model of submission of demand for support to programs such as FIRST, which have been a major funding source for advisory work, led to an opportunistic pattern of engagement.

Knowledge Management

A key characteristic of the capital markets program is its knowledge intensity. Although conventional assessment was hampered by limited evaluative evidence, failure to maintain and file core documentation has also been a factor. This failure also limits knowledge sharing and learning, both internally and vis-à-vis clients. Just 40 percent of World Bank AAA, on average, has all the required core documentation, though results for IFC are better. If knowledge sharing and learning are core institutional goals, this is a first area to be remedied.

Related to these issues is the only partial availability, in the Bank Group's databases, of financial market information. IEG's comparison of FinDebt and Bloomberg suggested that the former do not adequately capture the information needed to track World Bank programs.

Quality and Coordination

Finally, available evidence suggests better than average overall program quality, measured against the Bank Group's averages, according to many, if not all, measures. This is largely corroborated by IEG's country case studies. Strategic engagement with the client was good in most countries, and clients were largely appreciative of work quality, though process sometimes remains an issue. Internal coordination varied considerably across different parts of the portfolio, from best practice

to mixed, and scope for improvement remains in the latter.

CONCLUSIONS AND RECOMMENDATIONS: WHAT WORKED, WHAT DIDN'T, AND WHAT'S NEXT?

Making Strategic Choices

Both IFC and the World Bank took the right strategic choices with regard to many broad directions over the past decades. One critical question was whether or not to "sequence" market-based finance after banking. Both IFC and the World Bank decided to support capital market development in tandem with overall financial reform, a decision later supported by empirical research, which did not favor either a bank-led or market-led model.

The World Bank's attention to local currency government bond market development began in the aftermath of the Asian crisis as recognition of the importance of local currency government borrowing grew, and its GEMLOC program responded. IFC's early support for emerging market asset classes proved pioneering, as was its contribution toward the building of investability indices in these assets. As markets matured and private players emerged, the Bank Group emphasized areas of a public good nature or where catalytic frontier market support was needed. Thus IFC moved attention away from public stock markets as "equitization" receded and toward private equity for small businesses, and the development of local fund managers. Today as low-income countries graduate from IDA, new emphasis on local bond market development is needed for their domestic resource mobilization.

These early decisions were in line with the Bank Group's aims of development support, especially for public sector management and also for smaller enterprises. The costs of the traditional model of being a "public, listed company," are inherently too high for most small businesses.

Thus the Bank Group followed broadly correct strategic directions at critical points. And several aspects of its program of interventions have been innovative: (ranging from several first-time and unusually structured local currency issues of both IFC and IBRD Treasuries, its three-pronged self-financing GEMLOC program for building government bond markets, some of IFC's securitization programs, its insurance-related 'CAT' or catastrophic risk bonds), displaying global leadership and convening power (as in the Green Bond principles and contributions to standards-setting for financial infrastructure). Yet today, at a more detailed level, there is room for improvement in certain areas, and for a more coherent program for capital market support across its elements.

Coordinating Across Program Areas

Driven in part by its funding model, and possibly reflecting the Bank Group's partial strategic underpinning for capital market development for most of the review period, capital market development at the country level has sometimes been a patchwork of interventions. Even at a broader level, links across key related segments of interventions have surprisingly failed to develop. Thus while the Capital Markets group at the Finance and Markets anchor has had a strong program for developing client countries' bond markets, the local currency bond market development program undertaken by IFC's Treasury department focused, independently, on a quite different set of countries. Treasury programs could be more effective if undertaken in tandem with deeper system reforms for local bond market development. Such an integrated approach was adopted by the ADB and the Association of Southeast Asian Nations Plus Three (ASEAN+3) initiative, and there are also elements of greater integration today at EBRD; for example, through its diagnostic work, or its construction of benchmark money-market indices in markets which they aimed to support through bond issuance (for example, Russia, Romania). Such upstream integration between money market development and bond market development has been rare, although not unknown (for example, Colombia, Morocco), at the Bank Group.

Another area that would have benefitted from greater program integration has been the linkage between insurance and pensions projects so that their potential role as institutional investors contributing toward capital market development could be better captured. Although at an analytic level the knowledge of these linkages and how

they could be captured has been well known to the Bank Group's staff, in practice, this knowledge usually did not transfer to most operations in these areas. One exception has been the initiative in Colombia to invest in infrastructure bonds. In this context, some countries' experiences with suitable investment vehicles, such as the Mexican certificates of capital development (CCDs), largely held by Mexican pension funds, and Peruvian infrastructure debt trust funds, are of interest. More broad-based menus of investment, that help to optimize returns but nevertheless safeguard the funds of investors, are needed.

Sequencing and Clustering of Reforms

In most countries, the Bank Group engaged in dialogue on a broad front in capital market areas and the sequencing of interventions was not a major issue. But in some cases, where engagement was demand driven and highly specific, it was not possible to achieve effectiveness, because the program did not span important linked areas. One example was the corporate bond market work in India, in which Bank outputs, though thorough and cognizant of the interrelation between government and corporate bond market development, could have had greater overall impact had the dialogue also spanned the government securities market.

Issues concerning the interrelationship between government and corporate bond markets are of importance to the Bank Group, and seemingly, early emphasis on the former, through vehicles such as the GEMLOC program, is now ceding to greater emphasis on corporate bonds, for example through the Deep Dive initiative, and eventually, to transactions support, for example in the area of infrastructure project bonds, as in Colombia. Countries point out that the Bank Group's "honest broker" role in addressing issues in the enabling environment, and not the transactional support, per se, has been its most important contribution. Although recognition of and support to project bonds is very important, care may be needed to maintain, as necessary, an arms-length relationship between the policy and advisory support on the one hand, and transaction support on the other, benefitting from IFC's capabilities of translating policy into practice.

Adapting Advice to Country and Global Needs

International best-practices methods are an important benchmark but may not be optimal for every country. In some instances, projects proposed the adoption or adaptation of developed capital market solutions to smaller, less developed capital markets, which were not ready for such solutions. Risk-based supervision procedures are currently viewed as international best practices, yet the stage of market development in the West Bank and Gaza was far too preliminary to warrant the use of this technique. Other examples were the introduction of mortgage liquidity facilities in countries where macroeconomic and financial market conditions may not have had the depth or stability to ensure their success, or projects to develop equities-based capital markets in countries where there would be difficulty in finding a sufficient "critical mass" of private companies to issue and list equities. Such Bank Group projects were "ahead of their time." Conversely, there may a need to alert the most sophisticated clients to issues associated with products such as credit derivatives, or trading processes associated with new technologies (for example, high-frequency trading) that can lead to increased risk.

However, there were also instances of thoughtful adaptation and tailoring of solutions to country circumstances. In the Europe and Central Asia region, payments systems interventions ranged from the installation of basic RTGS systems in countries such as Turkmenistan and Tajikistan, to others, where the World Bank supported the replacement of such basic systems with newer generation systems with the additional features of the queuing of transfer orders and intraday liquidity facilities, resulting in more efficient use of liquidity for real-time settlement.

Recommendation 1

Integrate capital market development within the Bank Group across different areas of support.

Based on the preceding observations, to strengthen the loose-knit Bark Group strategy toward capital market development, sometimes

fragmented country-level interventions, and missed opportunities for integration, IEG recommends that the Bank Group: (i) prepare an underlying strategic framework for capital market development that spans all relevant elements of market development, from issuers to investors and including market infrastructure, for the Bank Group as a whole, and recognizes interlinkages and sets priorities; (ii) prepare guidelines for the Bank Group insurance and pensions programs that review, at the design stage, issues related to accumulation and asset management—for their own benefit as much as for the benefit of capital market development; (iii) identify a set of countries where programs for IFC's local currency Treasury bond issuance can be paralleled with support from the Capital Markets department to measures for deepening and strengthening the selected countries' local currency bond markets; and (iv) encourage consideration of enhancements, through the guarantees program, of infrastructure bond issuance in PPP approaches.

Using FSAP Diagnostics

A first issue in this regard is the need to improve use of FSAP findings. For a start, the incorporation of FSAP findings into the work program has been highly reliant on the FIRST trust fund, and translation into CASs has been a pale reflection of the underlying available knowledge. Even FIRST funded projects did not optimize the use of the FSAP; for example only a handful referred specifically to underlying International Organization of Securities Commissions (IOSCO) assessments and the extent to which recommended priorities were observed. The FSAP process could be used not only for the project planning and preparation process, but also to track long-term project outcomes, especially because project completion reports, prepared soon after project closure, are rarely in a position to capture final outcomes. Such linkages have been attempted in some rare cases, as in Colombia (2014), on the strengthening of Colombia's self-regulatory organization framework.

Recommendation 2

Enhance the use of the FSAP instrument to underpin the design of capital markets interventions.

Given the availability of high-quality diagnostics that could be better used to strengthen the diagnostic underpinnings of capital market development, following any FSAP, the Global Practice, if possible together with the relevant country department, should: (i) incorporate FSAP recommendations in the preparation of Systematic Country Diagnostics and consider these findings, as appropriate, in Country Partnership Frameworks; (ii) establish Bankwide criteria to assess prioritization of FIRSTor FSAP follow-up work and identify funding for FSAP follow-ups from sources additional to FIRST; and (iii) when successive FSAPs are undertaken, make use of them to track long-term project outcomes.

Generating, Sharing, and Using Knowledge

The Bank Group could further emphasize the development of cutting edge 'knowledge work to underpin future programs in the capital markets area. One example here is in the use of new technology for funding options for small businesses. There is need for continued innovation in this area, even as new digital financing models such as FinTech gain ascendance. IFC correctly moved away from the public listed company model, unviable for small enterprises. However, private equity or venture capital business does notrepresent an alternative small company listing model, because such firms rarely exit with an IPO. Today, local over-the counter trading platforms, crowdfunding, B2B trading platforms, or startup nurseries that focus on private equity or venture capital investors, may better serve small business needs. This is just one example of an area to explore; others must be explored if the Bank Group is to maintain a reputation as an innovator and not just a replicator in this field.

For the Bank Group to be able to provide cutting-edge knowledge, and to continue to innovate and maintain relevance, it needs to strengthen its learning culture and practices. There are basic concerns relating to the systematic maintenance of documentation, and the setting of better standards for self-evaluation in advisory services. The

absence of documents—especially downstream documents—hampers the extent to which lessons can be drawn or shared. As IEG illustrates, procurement documents proliferate in project files where final reports are missing or only available in local languages. Downstream documents are less commonly available than concept notes, for which upstream clearances are required.

Data issues also affect the capital market program. Although significant steps have been taken to compile and standardize information available, in databases such as FinDebt, it still falls short of what is needed to monitor core program areas, for example, local currency bond market development. IEG's comparison of FinDebt information with that available from external vendors and country data sources suggested shortfalls in core areas.

The Global Practice could make better use of its knowledge repository to enable access to information on areas of common interest, through routine best-practice notes. For example, projects on covered bonds have been undertaken in Brazil, India, Morocco, and Turkey, with few exchanges of information (though in India, IFC staff introduced clients to the Turkish and European models). Demutualization has been another topic of widespread interest in Costa Rica, India, Kenya, Morocco, Nigeria, and Sri Lanka. A synthesis of experience would be of value. In the same vein, dissemination is important, not only through written notes but also through convening events that bring together clients across countries—as in the GEMLOC Peer Group Dialogues. Systematic maintenance and publication of findings of such proceedings are also suggested.

Recommendation 3

Strengthen knowledge management within the capital markets area and develop a frontier global knowledge program.

(i) Implement and monitor service standards for maintenance of document repositories, data collection, and program monitoring and evaluation, including databases for capital market monitoring; (ii) Ensure the write-up and cross-country dissemination of findings on priority topics, identified by the Global Practice Groups (for example, on GEMLOC peer group dialogues, or on frequently recurring themes such as demutualization); (iii) Deepen the knowledge base both at a country and at a global level, to ensure that Bank Group knowledge is at the cutting edge and provides intellectual leadership.

Tailoring Funding to Program Sustainability

Future program sustainability at present rests precariously upon the adequate and consistent availability of an array of trust funds and other sources, such as reimbursable advisory services. Should funding cease, not necessarily because of weak performance but as a result of changes in donors' priorities, program sustainability becomes a concern, as the funding of GEMLOC has demonstrated. Such funding models may have contributed to the opportunistic and sometimes incoherent pattern of interventions across countries, as well as, in some cases, within countries.

To some degree this vulnerability has been addressed by new features of the FIRST program for programmatic funding, allowing a longer time horizon within a country. However the new features do not address questions of completeness of coverage, or choices across countries, or limiting assistance to countries that do not meet preconditions for sustainability. GEMLOC country-level technical assistance was also fragmented. Although new programs such as ESMID and the Deep Dive take a holistic view of capital markets segments in a given country, questions on country selection criteria remain. Clear criteria to ensure fairness and transparency across countries are merited.

Finally, care must be taken, within such funding models, to safeguard the attention to global programs, global engagement, and research, if the Bank Group is to provide knowledge leadership and move toward the role of being an innovator rather than replicator of country-level programs.

Vulnerability of global programs under country-driven models is an issue.

Recommendation 4

Review funding sources available for capital market development and their impact upon program design.

(i) Provide stable sources of funding for core global and country capital markets programs that balance internal and external sources and allow the Bank Group to respond to its priorities. (ii) Apply transparent and uniform criteria for country and program selection for new and continuing trust fund programs.

BEYOND THE PRESENT REPORT: EXTENDING THE ANALYSIS

Finally it must be recognized that the present report does not attempt to holistically cover all potential sources of long-term development finance, and has limited itself to capital markets finance only. Although the report has alluded, in some places, to the impact of the banking system upon capital market development, a more complete treatment would require the development of a comprehensive perspective on different sources of long-term finance – and the role of the Bank Group's interventions, for example, vis-à-vis development finance banks. These areas are still to be evaluated.

Management Action Record

IEG Findings and Conclusions	IEG Recommendations	Acceptance by Management	Management Response
<u>1.Strategic Integration</u> Driven in part by its funding model, and …reflecting the WBG's partial strategic underpinning for capital market development for most of the review period, capital market development at the country level has sometimes been a patchwork of interventions. Even at a broader level links across key related segments of interventions have surprisingly failed to develop…Loose-knit Bank Group strategy toward capital market development, sometimes fragmented country-level interventions, and missed opportunities for integration. An … area that would have benefitted from greater program integration has been the linkage between insurance and pensions projects so that their potential role as institutional investors contributing toward capital market development could be better captured. Although, at an analytic level, the	**<u>Recommendation 1:</u>** **Integrate capital market development within the Bank Group across different areas of support.** (i) Prepare an underlying strategic framework for capital market development that spans all relevant elements of market development, from issuers to investors and including market infrastructure, for the Bank Group as a whole that recognizes interlinkages and sets priorities. (ii) Prepare guidelines for the Bank Group insurance and pensions programs that review at the design stage issues related to accumulation and asset management - for their own benefit as much as for the		

IEG Findings and Conclusions	IEG Recommendations	Acceptance by Management	Management Response
knowledge of these linkages and how they could be captured have been well known to Bank Group staff, in practice, this knowledge usually did not transfer to most operations in these areas. Thus while the Capital Markets group at the Finance and Markets anchor has had a strong program for developing client countries' bond markets, the local currency bond market development program undertaken by IFC's Treasury department focused, independently, on a quite different set of countries. Treasury programs could be more effective if undertaken in tandem with deeper systems reforms for local bond market development that countries themselves undertake. Such an integrated approach was adopted by both the Asian Development Bank and the ASEAN+3 initiative, and there are also elements of greater integration today at the European Bank for Reconstruction and Development, for example, through its diagnostic work, or its construction of benchmark money-market indices in markets which they aimed to support through bond issuance (for example, Romania, Russia). Such upstream integration between money market development and bond market development has been rare, although not unknown (for example, Colombia, Morocco), at the Bank Group. It is puzzling that there has been such a noticeable decline in the offer of bond guarantees over the last decade, from the World	benefit of capital market development. (iii) Identify a set of countries where programs for IFC's local currency Treasury bond issuance can be paralleled with support from the Capital Markets department in terms of measures for deepening and strengthening the selected countries' local currency bond markets.		

IEG Findings and Conclusions	IEG Recommendations	Acceptance by Management	Management Response
Bank in particular. This may be a reflection of the prevailing difficulties with project finance in the wake of the crisis, and it may also reflect the move toward a more holistic PPP based approach to infrastructure finance. The emphasis on use of Public Private Partnership and limited recourse financing to create new infrastructure assets has enabled the mobilization of private equity primarily as these structures (generally through a contractual framework and credit enhancements) insulate the project's revenue stream from risks which the private sector is unable to bear or mitigate. These structures have enabled the funding of even greenfield projects as construction risk is managed within the contractual frame work and commercial banks and equity do not need the project to achieve a threshold rating.	(iv) Encourage consideration of enhancements through the guarantees program, of infrastructure bond issuance in public-private partnership approaches.		
2. Diagnostics: Need for stronger linkages to FSAPs A first issue in this regard is the need to improve use of FSAP findings. For a start, the incorporation of FSAP findings into the work program has been highly reliant on the FIRST trust fund, and translation into CASs has been a pale reflection of the underlying available knowledge. Even FIRST funded projects did not optimize the use of the FSAP – for example only a handful referred specifically to underlying IOSCO assessments and the extent to which recommended priorities were observed.	**Recommendation 2:** **Enhance the use of the FSAP instrument to underpin the design of capital markets interventions.** Given the availability of high-quality diagnostics that could be better used to strengthen the diagnostic underpinnings of capital market development, following any FSAP, the Global Practice, if possible together with the relevant country department, should:		

IEG Findings and Conclusions	IEG Recommendations	Acceptance by Management	Management Response
The FSAP process could be used not only for the project planning and preparation process, but also to track long term project outcomes, especially since project completion reports, prepared soon after project closure, are rarely in a position to capture final outcomes. Such linkages have been attempted in some rare cases, as in Colombia (2014), on the strengthening of Colombia's SRO Framework.	(i) Incorporate FSAP recommendations in the preparation of Systematic Country Diagnostics and consider these findings, as appropriate, in Country Partnership Frameworks. (ii) Establish Bankwide criteria to assess prioritization of FIRST and FSAP follow-up work and identify funding for FSAP follow-ups from sources additional to FIRST. (iii) When successive FSAPs are undertaken, make use of them to track long-term project outcomes.		
3. Knowledge Management For the Bank Group to be able to provide cutting edge knowledge, and continue to innovate and maintain relevance, it needs to strengthen its learning culture and practices. There are basic concerns relating to the systematic maintenance of documentation, and the setting of better standards for self-evaluation in advisory services. The absence of documents especially	**Recommendation 3: Strengthen knowledge management within the capital market area and develop a frontier global knowledge program**. (i) Implement and monitor service standards for maintenance of		

IEG Findings and Conclusions	IEG Recommendations	Acceptance by Management	Management Response
downstream documents hampers the extent to which lessons can be drawn or shared. As IEG illustrates, procurement documents proliferate in project files where final reports are missing or only available in local languages. Downstream documents are less commonly available than concept notes, for which 'upstream' clearances are required. Data issues also impact the capital market program. Although significant steps have been taken to compile and standardize information available, in databases such as FinDebt, it still falls short of what is needed to monitor core program areas, for example, local currency bond market development. IEG's comparison of FinDebt information with that available from external vendors and country data sources suggested shortfalls in core areas. The Global Practice could make better use of its knowledge repository to enable access to information on areas of common interest, through routine best practice notes. For example, projects on covered bonds have been undertaken in Brazil, Turkey, Morocco and India, with few exchanges of information (although in India, IFC staff introduced clients to the Turkish and European models). Demutualization has been another topic of widespread interest in Kenya, Morocco, Nigeria, Costa Rica, Sri Lanka and India. A synthesis of experience would be of value. In the same vein, dissemination is important, not only through	document repositories, data collection, and program monitoring and evaluation, including databases for capital market monitoring. (ii) Ensure the write-up and cross-country dissemination of findings on priority topics, identified by relevant units (for example, on GEMLOC peer group dialogues, or on frequently recurring themes such as demutualization);		

IEG Findings and Conclusions	IEG Recommendations	Acceptance by Management	Management Response
written notes but also through convening events that bring together clients across countries - as in the GEMLOC Peer Group Dialogues. Systematic maintenance and publication of findings of such proceeding are also suggested. The Bank Group could build a program of cutting edge 'knowledge' work to underpin future programs in the capital markets area. One example here is with regard to the use of new technology for funding options for small businesses. There is need for continued innovation in this area even as new digital financing models such as 'FinTech' gain ascendance. This is just one example of an area to explore, others must be explored if the Bank Group is to maintain a reputation as an innovator and not just a replicator in this field.	(iii) Deepen the knowledge base both at a country and at a global level, to ensure that Bank Group knowledge is at the cutting edge and provides intellectual leadership.		
<u>4. Tailoring Funding to Program Sustainability</u> Future program sustainability at present rests precariously upon the adequate and consistent availability of an array of trust funds and other sources, such as RAS. Should funding cease, not necessarily because of weak performance but as a result of changes in donors' priorities program sustainability becomes a concern, as the funding of GEMLOC has demonstrated. Such funding models may have contributed to the sometimes opportunistic and fragmented pattern of interventions across and within countries.	**<u>Recommendation 4:</u>** **Review funding sources available for capital market development and their impact upon program design and sustainability**: (i) Provide stable sources of funding for core global and country capital market programs, that balance internal and external sources and allow the Bank Group to respond to its priorities.		

IEG Findings and Conclusions	IEG Recommendations	Acceptance by Management	Management Response
To some degree this has been addressed by new features of the FIRST program for programmatic funding, allowing a longer time horizon within a country. However it does not address questions of completeness of coverage, or choices across countries, or limiting assistance to countries that do not meet preconditions for sustainability. GEMLOC country level technical assistance was not programmatic, although the program attempted to leverage funding from parallel sources. While new programs such as ESMID and the Deep Dive take a holistic view of capital markets segments in a given country, questions on country selection criteria remain. Clear criteria to ensure fairness and transparency across countries are merited. Finally, care must be taken, within such funding models, to safeguard the attention to global programs, global engagement and research, if the Bank Group is to provide knowledge leadership and move toward the role of being an innovator rather than replicator of country level programs. Vulnerability of global programs under country driven models is an issue.	(ii) Apply transparent and uniform criteria for country and program selection for new and continuing trust fund programs.		

1. Context, Scope, and Approach

Highlights

- IEG's evaluation comes at a juncture when long-term finance is at the core of the development agenda.
- Financial sector deepening and capital market development spur growth and poverty alleviation.
- Financial sector strategies at the World Bank Group alluded to the importance of capital markets though only recently, at IFC, acknowledging the interrelation between market segments.
- The central question is the relevance, effectiveness, and efficiency of the Bank Group's support to clients' capital markets for financial and real sector development and the reduction of poverty and inequality.
- The evaluation portfolio covers all segments of capital market development and includes at least 1,071 interventions across 64 countries.
- While FSAPs provided a fairly rich basis of diagnostic work for such interventions, albeit with a decline over time in some areas, FSAPs were reflected in, at best, half of the follow-up interventions.
- Country program reflection of support for FSAP related guidance to capital market development was variable, with strong support in certain countries, and almost no reflection of FSAP findings in others.

Capital Markets and the Current Development Agenda

This evaluation of the World Bank Group's contributions toward capital market development in client countries comes at a strategic juncture when the Bank Group's commitments to mobilizing long-term financial resources to meet development needs have grown increasingly prominent in the 'finance for development' dialogue, as witnessed by the Bank Group's umbrella report to the G20 on Long-Term Investment Financing for Growth and Development (2013); statements of the G20 Investing in Infrastructure working group (2014) and the 2015 Addis Ababa Action Agenda. Donor support, as well as long-term bank finance, are both limited. Capital markets complement bank finance, helping households and firms to better manage risks associated with long-term investments. The development of corporate and project bonds is itself predicated upon the development of government securities markets that provide benchmarks for private sector bond issues. As recognized after the Asian crisis, and reaffirmed today, as low-income countries graduate from IDA, deep and liquid domestic government debt markets enable governments to finance their fiscal deficits without exposure to currency risks associated with foreign borrowing, and at lower cost, thereby helping finance development. Well-functioning capital markets, properly managed, cushion poverty-inducing crises. As an integral part of the financial framework, capital markets help finance growth and thereby alleviate poverty.

MAJOR ELEMENTS OF CAPITAL MARKETS AND THE SCOPE OF THE PRESENT EVALUATION

Capital markets comprise both public sector and private corporate issuers, who issue a range of securities instruments: bonds, or fixed-income securities; stocks or equities, and bundles of claims such as mortgage-backed securities. They have maturities of more than a year, and are largely held by investors such as insurance and pension funds that need such assets to match their long-term liabilities. Well-functioning markets require sound market infrastructure—both 'soft' aspects such as laws, regulations and corporate governance and 'hard' aspects such as systems for trading, clearance, and settlement.

The Bank Group has activities in all these segments of capital market development. In terms of issuers and instruments, programs for public bond market support, initiated with the International Monetary Fund (IMF) and the Organisation for Economic Co-Operation and Development (OECD), were gradually extended to encompass the corporate bond market, an area of focus today. The Bank Group has also undertaken local currency bond issues through its Treasury departments. Attention to stock market development, though not central to capital markets work at the Bank Group during the past decade, has been supported largely through interventions on market regulation. IFC also has numerous private equity investments, which support the financing of small firms and could arguably exit through the stock market. Support for the development of markets in asset-backed securities, at the Bank Group, has been undertaken mainly through parts of its housing finance portfolio.

As regards investors, as well as capital markets infrastructure, the Bank Group collectively has a substantial portfolio in the area of insurance and pensions. IFC directly supported insurance companies while the World Bank focused on new product development and risk management. In terms of capital market infrastructure, the Bank Group's support encompassed both 'soft' aspects, such as the development of sound regulatory frameworks and good corporate governance, and 'hard' aspects: payment systems networks, and clearance and settlement arrangements.

Finally, both the World Bank and IFC have made use of capital markets instruments, indirectly or directly, to finance their own real sector investments, through bond issues and guarantees. IFC projects across a variety of sectors have introduced structured financing arrangements that encourage the use of capital market instruments, and both the World Bank and IFC have supported bond issues for project financing though credit enhancements and guarantees, in addition to advisory work. Recent Treasury programs provide support for the financing of environment programs and other areas of social impact investment. IEG has included all of the above in its review, in an effort to provide a comprehensive picture. 1

Bank Group Strategy toward Capital Market Development

IFC and World Bank strategies recognized the importance of developing capital markets (Appendix 1.1). Throughout this review period, IFC made consistent if limited reference to capital market development, in the context of the importance of local currency financing and the need to support frontier markets. Its overall strategy, from FY04–07 to its most recent strategy of FY15–17 echoed these themes. In 2011, for the first time in this period, IFC prepared a detailed and integrated roadmap that recognized that capital market development requires a full spectrum of agents to connect low issuance of securities instruments on the supply side with low institutional investment on the demand side, in the context of supporting institutions and infrastructure.[2] It also referred to the role of capital markets for real sector financing.

1.1 At the World Bank, there have been few formal articulations of financial sector strategy but its most recent, of March 2007, named capital market development as one of two areas that would receive special attention. It gave prominence to government bond market instruments, then a major area of focus, and also recognized the importance of the supply of capital market instruments for institutional investors, in the context of a joint IFC–World Bank unit. One noteworthy feature in terms of the articulation of the strategy into the Bank Group's organizational structure, however, was the separation of the Capital Markets Development and Corporate Governance service line (mostly involved with the developing instruments and some elements of infrastructure), and the Non-Bank Financial Institutions service line (which focused mostly on developing insurance, housing finance, and pension fund markets). In 2015 these service lines were integrated under a single Global Lead. And today, in 2016, the World Bank is in the process of formulating an updated financial sector strategy.

Capital Markets, Economic Growth, and Poverty Alleviation

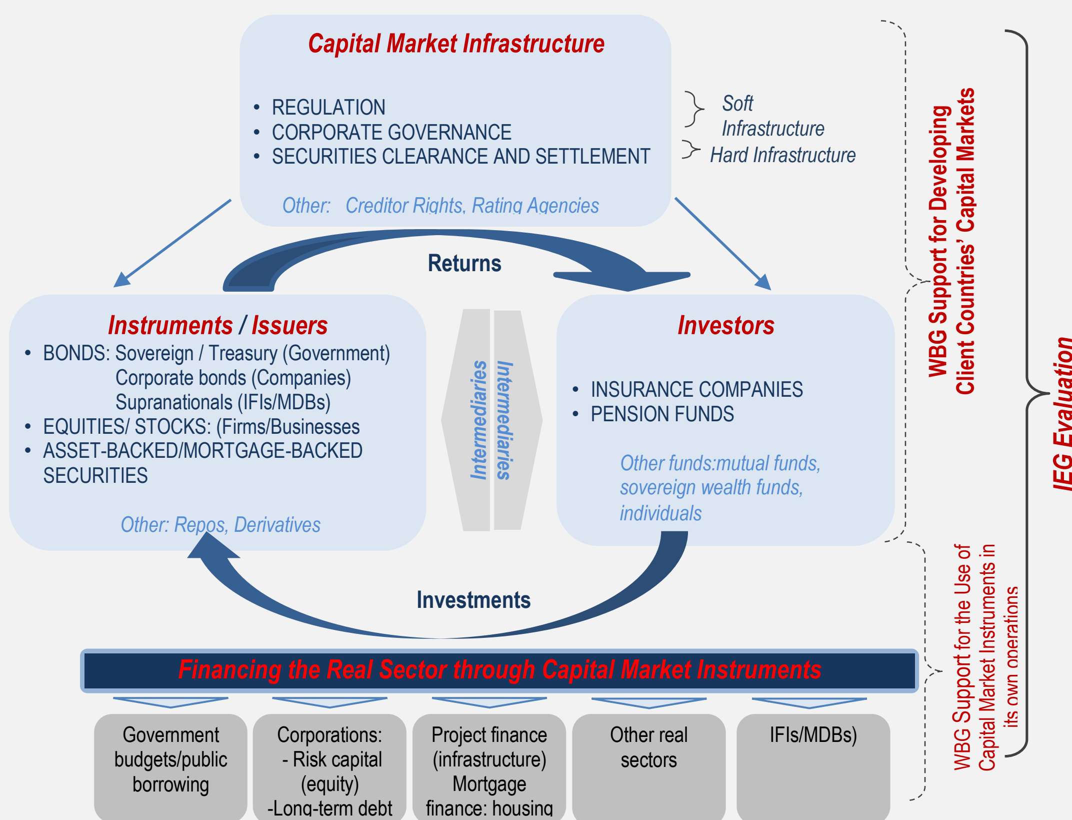
A large body of research illustrates a link between financial depth and economic growth. Empirically, with increasing economic development, countries tend to increase their demand for services provided by securities markets relative to those provided by banks. Bank-based structures tend to dominate in the early stages of growth, but the relative importance of banks decreases as economies develop. Sound financial development can avert instability and incidents of crisis and can disproportionately benefit the incomes of the poorest. Incidents of economic crisis can have severe effects on poverty(Ötker-Robe and Podpiera 2013). Safe financial systems thus indirectly support the twin goals of the Bank Group: reducing poverty and improving the lives of the poorest (Appendix 1.2). Well-functioning capital markets are an integral part of such financial systems.

Box 1.1 What Are Capital Markets and What Is the Scope of the IEG Evaluation?

Capital markets are financial markets for the buying and selling of long-term *securities instruments*. Capital markets provide an interface for allocating capital according to market-based pricing of risk and returns. They channel savings toward long-term productive investments, helping *issuers*—companies or governments—to raise long term capital, and long-term *investors*, such as insurance and pension funds, to hold long-term assets and earn returns. Key securities instruments are:

- *Bonds or debt instruments* that earn investors a regular "coupon," allowing them to become creditors to the issuer;
- *Equity* instruments or *stocks* and *shares* that permit investors to acquire ownership of companies and thereby share risk; and
- Bundles of claims, such as *asset-backed securities*—mortgage-backed securities are an example.

Capital market development needs the right infrastructure to develop, including "soft" aspects such as: a solid *legal and institutional environment*; good *corporate governance* that protects investor rights, especially those of minority shareholders; and "hard" aspects of *sound financial infrastructure*—including the physical underpinnings of trading systems and securities clearance and settlement arrangements. Bank Group interventions have supported the development of all these areas: the development of securities instruments, long-term investors, and capital market infrastructure. They are all included in the IEG evaluation. IEG also reviews the Bank Group's support for the use of capital markets instruments in key sectors of its own operations.



Capital market instruments are generally deemed to have maturities of at least a year; instruments of shorter maturity, known as *money market* instruments, provide the liquidity to support secondary market development, also supported by repos and derivatives. On *primary markets*, issuers of new stocks or bonds sell them to investors via an underwriting process. In *secondary markets*, existing securities are sold and bought among investors or traders, on an exchange, or on over-the-counter markets, sometimes intermediated by brokers or primary dealers. Liquid secondary markets increase investors' willingness to buy. *Stable macroeconomic conditions* (low inflation; stable interest rates) are critical for capital market development.

Source: IEG

The development and expansion of capital markets, like that of all financial markets, has risks but also brings benefits. Instability, exaggerated by present high levels of leverage, may limit the impact of financial development on poverty alleviation. Certain technological shifts, new financial contracts, and the rise of shadow banks bear their own risks. Yet, technology may also bring benefits—such as the recent rise of new trading platforms for capital for small firms. Capital market development, while desirable, must be harnessed for safety.3

IEG's Evaluation of Capital Markets: Objectives, Audience, and Evaluation Questions

The core purpose of the evaluation is to assess how well the Bank Group supported its client countries in the development of their capital markets, across the full spectrum of activities that contribute to the development of such markets. Its audience is the World Bank Group's Boards of Directors, followed by Bank Group management and technical staff, and finally, other international financial institutions (IFIs) and the donor community. Its overarching question is:

- Has the Bank Group been relevant, effective and efficient in supporting the development of its client countries' domestic capital markets to deepen their *financial* systems, realize *real* sector development, and support the achievement of the Bank Group's twin goals of poverty alleviation and shared prosperity?

The evaluation examines the relevance of both objectives and design, effectiveness in terms of outcomes and impact, and program efficiency. *Relevance of objectives* refers to the extent to which the Bank Group's capital market interventions reflected prevailing financial sector knowledge and diagnostics. *Relevance of design* looks at the extent to which intervention focused on the right issues in the country and sector context. IEG evaluates *effectiveness* in terms of the extent to which the Bank Group's interventions achieved their objectives, primary or secondary, relevant to capital market development, in terms of both immediate outputs and outcomes, for domestic capital market development or real sector support —and whether these results were sustained over time. Finally, IEG also examines *efficiency*, in terms of program funding and sustainability, program monitoring, tracking, and results measurement, internal and external coordination, and quality control. Given the heterogeneity of interventions, the evaluation constructs metrics with supplementary questions for each portfolio area (Table 1.1).

Table 1.1 Examples of Supplementary Evaluative Questions Specific to Individual Areas of World Bank Group Support

Supplementary Evaluation Questions for Areas Supported by WBG
Issuers and Instruments: Bonds, Equities, Asset-backed/Mortgage-backed securities
• Did the Bank Group support the development of robust *government bond markets* that (i) funded public borrowing? (ii) reduced funding costs and increased their predictability; (iii) improved liquidity and (iii) built yield curve benchmarks? • Did the Bank Group help *corporate stock and bond markets* to meet private sector funding needs? • Did the Bank Group support securitization, for *asset-backed and mortgage-backed securities* and other capital market housing finance instruments through mortgage liquidity facilities? • Did the Bank Group's programs of *Treasury bond issuance* of local currency bonds and theme bonds (i) help develop clients' capital markets; (ii) provide additionality in funding?
Investors: Insurance Funds, Pension Funds
• Did the Bank Group support the development of insurance and pension systems that would accumulate funds for investment in capital markets, and manage their assets to undertake such investments? Did the Bank Group support the development of investment rules for these funds that would encourage the development of a diversified capital market? Did the Bank Group help to develop funded pension systems, with rules conducive to capital market investments?
Market Infrastructure: Legal and Regulatory Frameworks, Corporate Governance, Payments Systems
• Did the Bank Group help contribute to the preparation or modification of a sound *legal and regulatory frame*work for securities? • Did the Bank Group effectively support the *improvement of corporate governance* for listed companies in terms of protecting the rights of minority shareholders, and more transparent appointments of boards of directors? • Did the Bank Group effectively support the development of sound systems for securities clearance and settlement, shortening elapsed time to settlement, achieving delivery versus payment and reducing counterparty risk?
Capital Markets and Real Sector Financing in the Bank Group Agenda: Infrastructure and the Environment
• Did the Bank Group support long-term finance of *infrastructure projects, environment finance, or other areas of the real sector through* capital markets instruments?

The results chain underpinning this evaluation, linking the full spectrum of the Bank Group's interventions with outputs and intended outcomes, is illustrated in Figure 1.1. The underlying theory of change is that all interrelated areas of capital markets and their surrounding environment together achieve the final output of market strengthening, more robust financial systems, supporting growth, and the reduction of poverty and inequality.

Evaluation questions were answered largely through a combination of well-accepted methodologies including: desk reviews of policy and strategy documents; theme- focused portfolio reviews based on customized questionnaires, and five field visits. Contents were organized using both qualitative and quantitative methods, organized by cluster and benchmarked, where possible, against international standards. The evaluation also incorporated external evidence from other IFIs or multilateral development banks (MDBs) and data on market evolution from the Bank for International Settlements, Bloomberg, Datastream, EMPEA and other sources, relying on traditional processes of triangulation.

Figure 1.1 Results Chain—Bank Group Support to Capital Markets: Activities, Outputs, and Outcomes

Source: IEG.

Challenges were faced: about half to three-fourths of interventions were advisory services and for many interventions, capital market development was of secondary or indirect relevance. Netting out the 295 IFC private equity funds, three-quarters of the remainder consisted of advisory services. Just a quarter had IEG evaluation notes, with no IEG micro-evaluative coverage of the 476 WB AAA (Appendix 1.3). Even on the investments and lending side, there was limited evaluative material.[4] An additional challenge was that activities such as insurance, pensions or housing provided *indirect*, or secondary, support to capital market development. IFC investments (e.g., private equity funds) had capital market development as, at best, a secondary objective. IEG consulted the Bank Group's sector staff to screen out the least relevant

interventions and then undertook its own project screening, to identify the most relevant for capital market development.

PORTFOLIO IDENTIFICATION AND COUNTRY SELECTION[5]

The evaluation covers Bank Group operational interventions that have supported the development of key segments of capital markets over the eleven year period (FY04–14) – i.e., before, during and after the financial crisis. In some areas, the evaluation went further back. These especially include Country Assistance Strategies (CASs) and Country Partnership Strategies (CPSs) and FSAPs that were initiated before the evaluative period, but were relevant to the years of the evaluation. Project selection was based on a succession of filters, beginning with World Bank and IFC system codes for sectors and themes, supplemented by word searches, screening of project objective statements, and, finally, consultations with the Bank Group's staff in relevant thematic areas. The *identified* portfolio thus included 1,071 interventions, amounting to 3.7 percent of World Bank analytic and advisory (AAA) activities, 1.4 percent of World Bank lending, and averaging 2.9 percent of all World Bank interventions. The *reviewed* portfolio includes the Bank Group's interventions across at least 64 countries (Appendix Tables A1.1 and A1.2).

In many market segments (corporate governance, housing, insurance, pensions, payments, private equity) all observations were reviewed. In select segments (bond markets, capital market regulation), principal clusters of observations were reviewed—50 out of 100 projects in bond markets; 10 countries with at least three interventions each for capital market regulation and development, and 20 countries with at least two interventions for FSAPs and CASs. About two-thirds of country-focused projects reviewed were in just 25 countries.[6] Only nine of these are included in the G20 and belong to the Financial Stability Board. Case study countries had additional purposive elements: no more than one country per continent, inclusion of countries at all income levels, and a high level of representation in the IEG portfolio. The countries selected were Colombia, India, Kenya, Morocco, and Vietnam. In terms of evolution over time, there was a mild trend increase, with some 90 projects per year in the first half of the period, and about 100 per year in the latter half. As in global markets, the Bank Group's intervention in areas such as bond markets and private equity rose, while housing, corporate governance, and public stock markets showed some, though not significant, decline.

Analytic Underpinning in FSAPs:A Diagnostic Approach

As a prelude to the examination of the Bank Group's capital markets portfolio, the present chapter reviews the extent to which there was an adequate and in-depth diagnostic foundation for such interventions. These were undertaken mainly through the joint IMF/World Bank FSAPs. The chapter also reviews the extent to which FSAPs underpinned the Bank Group's

actual interventions, as reflected in country strategies, and whether they were reflected in work programs.

IEG's review of 39 FSAPs in 20 countries finds that coverage of most areas relevant to capital market development received reasonable even if diminishing coverage.[7] The FSAP review included specific capital-markets' relevant annexes, that accounted for 75 out of 192 annexes written on such topics.[8]

Specialized FSAP annexes on topics relevant to capital markets declined in frequency in the second half of the review period, from 49 to 28, and also relative to all annexes. Declines were especially noticeable in the areas of insurance and pensions. Overall capital market annexes and annexes on public debt altered little. All FSAPs provided significant commentary on macroeconomic stability and the financial environment. Most countries with several Bank Group capital markets interventions had relatively stable macro environments. One country (Morocco) had a significant improvement in its macroeconomic outlook—and an accelerated Bank Group intervention in capital markets. In Colombia, where the World Bank had a significant series of interventions, the FSAP had pronounced that the macroeconomic environment was appropriately prudent, favorable, and improving. However, in Kenya, which also had significant interventions, and initial macroeconomic conditions appeared favorable, the outlook deteriorated after the crisis but there was little discussion in the 2011 FSAP of the impact of this factor on the program. A few Bank Group interventions occurred in countries with a less conducive macro environment. For all 20 countries reviewed, IEG scored countries according to the quality of the macroeconomic environment as well as changes over time, on a 10-point scale. Some, such as Bangladesh and Nigeria, were in the lowest range, with a score of 3.3, in the earlier period, and Azerbaijan, Ghana, and Kazakhstan remained at 5.0 or below.

In terms of the overall financial environment, market determination of interest rates was only discussed explicitly in 10 of the 39 sampled FSAPs. FSAP assessments of financial sector soundness in the 20 countries sampled broadly improved during the review period under review. Of the 16 countries that had more than one FSAP during the period, 13 saw improvement in the assessments over time while only one, Pakistan, saw deterioration.

Many areas covered in this evaluation received near-universal coverage in FSAPs, especially from a regulatory perspective (public bond market development, securities regulation and supervision, payments systems). As many as 22 FSAPs recommended a change in investment policies for pension funds; eight in broad terms (suggesting more diversification or liberalization of investment guidelines) and another eight specifically in terms of increased investments in nongovernment, corporate securities. In insurance, aside from industry structure, regulatory frameworks, or supervisor capacity, there were significant discussions of issues relating to the solvency of firms and risk management. Seven FSAPs explicitly suggested more diversification and greater flexibility in investments.[9]

Table 1.2 FSAP Follow-up in IEG's Capital Markets Portfolio: Advisory and Lending Services

	WB AAA			FIRST TA or Advisory			WB Lending		
Countries	Ref to FSAP	Follow FSAP in 5 years	Total AAA in Country	Ref to FSAP	Follow FSAP within 5 years	Total FIRST in Country	Ref to FSAP	Follow FSAP in 5 years	Total Lending in County
Total 20 countries	12	92	142	13	27	40	19	36	46

Source: IEG; Appendix Table A2.1
Note: WB = World Bank; TA= technical assistance; AAA = analytic and advisory servies; FSAP = Financial Sector Assessment Program.

Despite rich diagnostics, follow-up interventions only referred to FSAPs a quarter of the time, on average . However, the ratio increases to around half for follow-up lending and for technical assistance under the FIRST program. For the 20 countries for which FSAPs and CASs were reviewed, IEG examined post-FSAP follow-up interventions in the five years after the date of the FSAP, and examined each follow-up, to see whether a reference was made to the preceding FSAP (Table 1.2 F). Of the total of 155 interventions that occurred within five years of an FSAP, only 44 referred to the preceding FSAP. The majority of AAA, however, appeared unrelated to the FSAP (13 percent reference rate). These results are unsurprising, and they illustrate the dependence of the FSAP follow-up on the FIRST trust fund, sometimes as a stepping stone contributing to the design phase of an eventual lending project. Results varied considerably across countries. In two out of 20 countries, there was no identifiable follow up, and in another eight countries, only one. Yet in five out of 20 countries, there were between four and six follow-up interventions.

Reflection of Capital Markets Issues in Country Strategies and Country Programs

IEG's analysis of 46 country assistance and partnership strategies (CAS/CPS) in the same countries found a high rate of allusion to FSAPs, though not necessarily linked to the work program (Table 1.3). Although almost 80 percent of CAS/CPS documents referenced FSAPs, these references could be in the context of the past, current, or future work program. Only a few, like Brazil and Kenya, offered clear connective references.[10] Whereas overall support to the financial sector was consistently expressed, support was lower and more variable for capital market development (Appendix Tables A1.4 and A1.5). For the financial sector as a whole, more than half the reports (34 out of 46) received high scores. By contrast only 15 out of 46 documents received a high score for areas related to capital markets development. Over time, scores for both overall financial sector support as well as specific support for capital markets–related themes declined, with a greater drop in the latter category. Bond market development, together with all forms of capital market infrastructure, received the highest and most sustained scores

(market regulation and development, as well as corporate governance and payments systems). Stock market development received the lowest score (Appendix Table A1.5).

Table 1.3 FSAP References in CAS Documents: Timeframe of Delivery and Nature of Reference

Country Name	Timeframe of FSAP Del.				Description FSAP Reference					Total
	Prior to CAS	Concurrent with CAS	Forthcoming FSAP	No Mention	Mentions capital markets	Selectively mentions capital market relevant	Refers to banking or other areas of finance	Reference s part of work program only	No mention	
Total 20 countries	30	16	5	13	11	3	15	22	13	64

Source: Appendix Table A1.5, IEG.

IEG's country case studies corroborate the variation in use of FSAPs and their incorporation in country work programs. In Morocco, there was a high degree of congruence between FSAPs and the financial sector work program. The 2008 FSAP documented the need to develop a benchmark yield curve, with recommendations for the capital markets and insurance regulators.[11] These issues were reflected in the 2010 Sustainable Access to Finance development policy loan and supported by the Global Emerging Markets Local Currency Bond Program (GEMLOC) and FIRST advisory interventions. Morocco's FY10–13 CPS, underpinning this operation, made explicit reference to strengthening the role of capital markets: improved liquidity of the benchmark yield curve was a program outcome. In Kenya, too, there was consistency between the FSAP analyses and the actual country program in the financial sector. In Colombia, the FSAP was influential for most of the period reviewed.

By contrast, although India's two FSAPs of 2001 and 2013 had a significant focus on capital markets development, this was only slightly reflected in its CAS and CPS documents, and congruence fell over time. World Bank support for capital markets declined in importance during the evaluation period. References to the financial sector moved away from the FSAPs and toward the challenges of financial inclusion. World Bank interventions in the capital market area grew piecemeal, with fragmentary technical contributions in selective niches.

Vietnam had little opportunity to reflect its FSAP in its early capital markets program because its first FSAP was undertaken in 2012/2013. Vietnam's early CAS documents also made no reference to work in this area. The 2002 CAS referred to a division of responsibilities with the ADB, under which the ADB would support the nonbank financial sector, and the World Bank would focus on the banking system. It also referred to a Financial Sector Assessment, to be completed jointly with ADB in FY03. The 2007 CPS stated that an FSAP was planned for the period between 2007 and 2011. However, neither took place and the subsequent CPSs do not state why.

FSAPs and Country Strategies: A Summary of Findings

FSAPs provided a rich source of guidance for the Bank Group's capital markets interventions in virtually all areas, despite some decline over time. There were, however, some minor gaps: Kenya's 2011 FSAP did not discuss its crisis-affected macro environment or how it could affect financial markets. A number of FSAPs were silent on the interest rate environment, critical for capital markets. And money market discussions, and links thereof to bond market development, were variable. Bank Group interventions did not necessarily heed the FSAP; for example, it had programs of capital market work even in less favorable macroeconomic environments.

FSAPs were referred to in follow-up interventions in the capital markets areas about half the time in lending operations and FIRST-financed advisory work. A large spectrum of AAA was unrelated to FSAP findings. There was striking variation across countries, with four to six follow-on interventions in a quarter of the countries, but none or only one in about half. In the 46 country strategy documents related to the 20 countries examined, over the relevant period, there were 64 mentions of FSAPs, but only 14 referred to capital market–related areas. And only 15 out of 46 CASs and CPSs received a high IEG score for mentions of capital market–related areas.

IEG's country-level review of linkages between FSAPs, country strategies, and the work program reinforce the finding of highly variable linkage. In Morocco there was considerable congruence between the FSAP and the work program; and in Kenya, there was conscientious follow-up. In Colombia the FSAPs had provided a rich overall context for its securities markets for most of the review period, though recent references are more selective. By contrast, FSAPs in India had little, and diminishing, influence on dialogue in this area. In Vietnam, the seeds of the Bank Group capital market development program were sown even in the absence of an FSAP, largely at the behest of the country government and seemingly unbeknownst to the Vietnam country strategy. However, closer parallels are now emerging.

2. Instruments: Building Bond Markets

Highlights

- ❖ The Bank Group has adopted major innovative and large-scale programs for bond market development, jointly housed under the World Bank and IFC, and highly leveraged by unconventional funding and donor support.
- ❖ Its flagship Global Emerging Market Local Currency Bond Program (GEMLOC) for government bonds was successful at strengthening government bond markets, notably through the low-cost and effective advisory support of its Peer Group dialogues.
- ❖ GEMLOC's highly original second and third pillars, the GEMX index and the PIMCO-managed fund for emerging market sovereign bonds, sought to increase the attractiveness of this asset class. Though less successful, they still served useful purposes.
- ❖ The Efficient Securities Markets Institutional Development program (ESMID) aimed to complement GEMLOC through its focus on corporate and project bonds, offering integrated solutions, from addressing market barriers to bringing transactions to market. Its legal and regulatory agenda has been the most successful, with partial success in terms of transactions.
- ❖ Although the ESMID program was unusually broad in a number of respects, it is a question whether a final purposive focus on individual transactions could distract from broader initiatives and prior reforms required for the market as a whole. Arguably, a conducive environment would itself facilitate transactions.
- ❖ Additional Bank Group support is evident at the country level, often reinforced by programmatic lending and typically, though not invariably, underpinned, where available, by FSAP guidance on design. In some countries, lack of comprehensive dialogue and sustained engagement limited effectiveness.
- ❖ Meanwhile, both IFC and IBRD Treasuries issued local currency bonds, mostly offshore, largely for funding purposes, but also, in the case of IFC, linked to its business needs (local private investment), within its tight constraints for currency exposure, and in accordance with its mandate, since 2013, of local capital market support.
- ❖ Both Treasuries have undertaken some innovative transactions. Programmatic issuance is valuable and can help build a yield curve and establish an AAA-rated benchmark. Its impact in domestic markets depends on relative scale. However, positive demonstration effects have been claimed in some countries.
- ❖ Experience in other MDBs shows that impact can be increased not only through programmatic engagement but also, as in EBRD and ADB, though more systematic integration of an issuance program with advisory work.

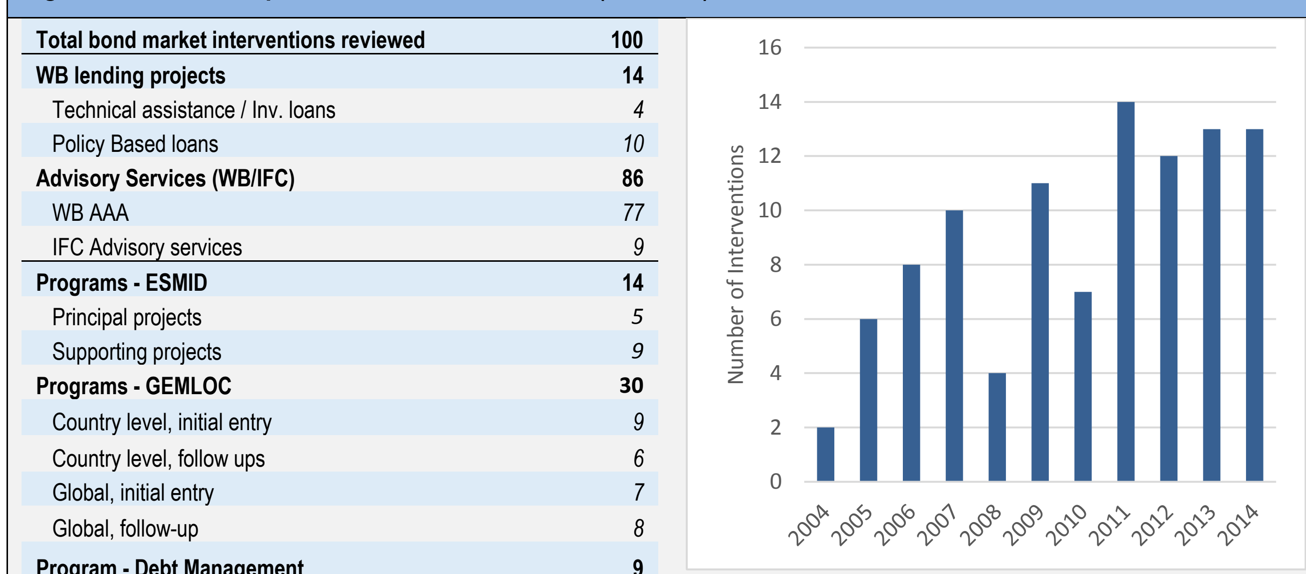
Building Bond Markets: Core Clusters of Operational Interventions

Bond instruments, for fixed-income securities, are the core component of capital market development, and support to bond markets lies at the heart of the Bank Group's work for capital market support. Deep and liquid domestic government debt markets support sound budget management, strengthen monetary management, and build yield curves that support diversified funding, especially longer-term funding, for the financial and real sectors.[12] Apart from advisory and technical assistance support by the Bank's Finance and Markets anchor

(Appendix 2.1), the Treasury's debt management group, and regional units, IFC has also invested in bonds issued by clients, and the Treasury departments of both IBRD and IFC have undertaken local currency bond issues with the potential of support to client countries' financial markets.[13] The present review focuses on 100 interventions that were *primarily* focused on bond market development (Figure 2.1), acknowledging that components of projects relevant to bond market development may also be embedded in combination with other areas of capital market work.[14]

Almost half the interventions were associated with programs under the GEMLOC and Efficient Securities Markets Institutional Development (ESMID) clusters, and almost half took place at a global or regional level.[15] A third cluster comprised the advisory work on debt market development ancillary to support for debt management, under the Banking and Debt management group, FABDM. GEMLOC and ESMID relied on unusual financing (discussed in greater detail in Chapter 8) and as a result, more than half the program of some $20 million during 2004–14 has been financed by just two external donors, the Swiss State Secretariat for Economic Affairs (SECO) and the Swedish International Development Cooperation Agency (SIDA).[16] SIDA has been the principal supporter of the East Africa programs, while SECO has so far supported the regional Latin America programs, in Colombia and Peru. In addition, GEMLOC contributed about 20 percent, with another 10 percent from other donors, and about 2 percent from reimbursable advisory services. Partly as a reflection of the large-scale ESMID regional programs, projects are skewed in size, with seven projects of more than $1 million, but an average size of the remaining 93 projects of $116,000 (Appendix Table A2.1 to A2.4).

Figure 2.1 Bank Group Bond Market Interventions (FY04–14)—Basic Characteristics



Total bond market interventions reviewed	100
WB lending projects	**14**
Technical assistance / Inv. loans	*4*
Policy Based loans	*10*
Advisory Services (WB/IFC)	**86**
WB AAA	*77*
IFC Advisory services	*9*
Programs - ESMID	**14**
Principal projects	*5*
Supporting projects	*9*
Programs - GEMLOC	**30**
Country level, initial entry	*9*
Country level, follow ups	*6*
Global, initial entry	*7*
Global, follow-up	*8*
Program - Debt Management	**9**

Source: IEG analysis.
Note: WB=World Bank; AAA=analytic and advisory activities.

Many projects funded under ESMID and GEMLOC were largely conducted by the Capital Markets group, now a part of the Finance and Markets Global Practice, a joint IFC/World Bank unit.[17] The relatively large share of projects in the latter half of the evaluated period partly reflects the onset of these programs, and the consolidation of the joint World Bank/IFC group

after 2006. Geographically, low-income countries—Kenya, Mozambique, Nigeria, and Tanzania—were the biggest program recipients by value.[18]

Given that the large clusters of programs, GEMLOC and ESMID, account for more than half of total projects in terms of numbers and almost three-fourths of the total value of bond market advisory work, the following desk-based review first focuses primarily on these two clusters of projects. There is no previous evaluation of the GEMLOC program; however, major external evaluations have been undertaken of the ESMID program, which IEG draws upon.[19]

GEMLOC – GLOBAL EMERGING MARKETS LOCAL CURRENCY BOND MARKET PROGRAM

GEMLOC, a joint World Bank/IFC program launched in 2008, was a multipronged initiative that targeted both improved issuance, increased investment, and improved 'investability.' [20] Its three complementary pillars comprised: i) a private sector–led index (GEMX) that tracked a set of emerging market local currency sovereign bonds; ii) an investment fund committed to investing in such bonds in GEMLOC program countries; and iii) advisory services provided by the Bank Group to strengthen local currency government bond markets in these countries, primarily through three vehicles: peer group dialogues across countries, country-specific programs, and applied research on relevant topics (Box 2.1).

The 30 GEMLOC projects reviewed were a heterogeneous group. Some were used to finance program initiation and design.[21] They enabled the hiring of the GEMLOC investment fund manager, develop the investability indicators for the GEMX index, and survey relevant policy makers for priority topics.[22] The startup projects provided the roadmap, and identified topics that were eventually the basis of handbooks prepared by the GEMLOC team.

Box 2.1 The Three Prongs of the GEMLOC Program

GEMX, the private sector–led global index tracked emerging market local currency sovereign government bonds satisfying specified market size and scored against a set of investability criteria. The benchmark was maintained by the Markit Group Inc., a private sector index provider. Twenty countries were initially eligible for inclusion in the program and the benchmark, based on criteria that included measures of capital controls, market access, taxation, liquidity, investor base, regulatory quality, and market infrastructure. A portion of the revenues Markit obtained by selling data about the index were to be shared with the World Bank Group, once Markit had received a specified minimum amount of revenues to compensate it for running the index.

PIMCO, a private investment manager, won the tender to create and offer the new investment fund to invest in local currency government bonds of GEMLOC program countries, the second arm of GEMLOC. It was established as an open-end fund, incorporated in Luxembourg. A portion of the fees, set at 30 basis points of the funds under management, were passed to the Bank Group to finance its advisory services to included countries. At its formation in 2007, expectations were high that the new investment fund managed by PIMCO would gather several billion dollars in assets—up to $5 billion was discussed in the press.[1] This never happened, because revenues from GEMLOC reportedly amounted at most to up to $1m per year. However, these were sufficient to finance the GEMLOC advisory services for its years of operation, leveraged by funding from other sources. In the fall of 2015, PIMCO closed the fund because its largest investor decided to pull out. Further financing for the Bank Group's GEMLOC advisory services from PIMCO fees thus stopped, though some remains unspent and available for continued Bank Group bond market advisory services.

Advisory Services for GEMX countries were provided through country-specific programs, peer group dialogues, and applied research on relevant topics (knowledge products), as well as conferences and "South-South" collaborations. Topics included market policies, regulation, trading, clearing, settlement, and the investor base.

Sources: GEMLOC website, IEG discussions; http://www.reuters.com/article/2008/02/20/us-worldbank-fund-idUSN1929333720080220 and http://www.institutionalinvestor.com/article.aspx?articleID=1916281#.Vc8St3mFPIU.

GEMLOC's Peer Group Dialog discussions provided policy makers with a virtual forum for sharing expertise on issues related to government bond markets. Topics were innovative and technical, including, for example, the links between efficient government cash management, target cash buffers, and bond issuance; issuance practices in domestic public debt, including the use of syndication; the roles of primary dealers; retail government debt programs; electronic trading platforms; exchange traded bond funds; as well as topics such as securities lending facilities, repo markets, and liability management. In the postcrisis period topics also included lessons from the global crisis and challenges in sterilizing capital inflows. Specialized topics such as sukuk instruments were also discussed. Client participation was strong. These web-based virtual dialogues promoted decentralized learning, enabled the World Bank to extend its geographic reach in a cost-effective manner, and helped it stay continuously abreast of challenges faced by client countries. Peer Group dialogues were accompanied by background materials and surveys that were later compiled for reference. Bilateral "South-South" collaboration among some participants also emerged, as between Brazil and Turkey. Nonetheless, more broad-based attempts to launch online groups through eCollaborate, to allow more dynamic discussion on Peer Group dialogue topics, with limited involvement of the World Bank, did not gain traction. The team's completion note commented that "one of the challenges of starting and maintaining an online forum (even with an established set of participants) is that it requires dedicating some resources to populate content when activity is low and to moderate discussions. We have not been able to do this successfully so far."[23]

GEMLOC's innovations included the design of a new type of Issuer-Driven Bond exchange-traded fund (I-D ETF), although implementation is yet to occur. The I-D ETF Program's key innovation was the active involvement of the issuer to alleviate the main bottlenecks of traditional exchange-traded funds (ETFs), such as liquidity constraints. It was hoped that the involvement of the issuer would facilitate efficient tracking, rebalancing, and alignment with development goals. The Completion Summary pointed out that the team benefitted from the active network of debt managers of more than 16 countries, as well as leading private sector institutions. The overall development objective was deemed largely achieved, in terms of the design of a new product.[24] A follow-up project in FY15 seeks to implement the pilot I-D ETF program in Brazil. Its peer reviewers stressed the importance of capturing lessons to identify future likely candidates.

The remaining 13 GEMLOC projects for specific countries largely delivered their outputs successfully, though some acknowledged difficulties owing to country readiness or political issues. Successful projects included support for the Debt Management Office in Nigeria, and the Treasury Mobile Direct project for retail bonds in Kenya. However, two projects in Uruguay grappled with the need for better coordination of monetary and fiscal policies to standardize government securities issuance.[25] In Kazakhstan, a GEMLOC project on the primary dealership

system withdrew support "*due to the lack of buy-in for reform implementation…*"[26] Finally, relatively little information is available on some projects.

Contrary to initial expectations, the second major component of the GEMLOC work program, its GEMX index, was not widely adopted.27 Created in 2008, it was intended to be widely used as a benchmark by a range of market participants. Although the index management company, Markit, has clients who purchase its GEMX index data (mainly asset management companies and a handful of banks), there are no publicly listed funds benchmarked against it. Its limited adoption is partly ascribed to competition from the better established JP Morgan emerging markets local currency government bond indices, and some features related to the construction of the index itself. Its component markets reflected the remit of GEMLOC rather than common investor perceptions. It excluded better established non-Bank Group client markets (Israel, the Republic of Korea), still considered a part of the emerging markets class, while including smaller, frontier markets such as Egypt, Nigeria or Peru. Eventually it became an uneasy combination and did not succeed in delivering an index for either segment. Concerns were also raised about the "theoretical" nature of some elements, for example the bid/ask spread, in illiquid markets. The indicators have now been strengthened and made more transparent. With the Bank Group's permission, and no financial compensation, its methodology is now used by Markit in other indices.28,29 Today its continued publication is likely, despite its narrow clientele.

GEMLOC – IEG Evaluation

It is reasonable to conclude that the GEMLOC project's *objectives* both at a broad level, and regarding its advisory services in particular countries, were relevant. At the broadest level, the development of a local currency government bond market in any country is arguably the most fundamental element of any country's capital markets, and interventions were demand-driven. The *design* of its three-pronged structure was also relevant, as well as efficient and productive. Country selection criteria were transparent and suitable, in terms of minimum market size, regulation, and infrastructure. Valuable implicit principles underpinned its design: the usefulness of an experimental approach; the need for a range of actions on both the issuer and the investor fronts; the importance of stakeholder buy-in, including both public and private sector actors; and the value of cross-country learning. The Bank Group clearly played an "honest broker" role between the public and private sectors in projects such as Treasury Mobile Direct and ID-ETF.

In terms of *effectiveness,* GEMLOC's programs of Peer Group Dialogues and bond market research were effective at facilitating the exchange of ideas and experience. Countries frequently requested participation, bringing their entire technical group to the conversation. Virtually all PGD sessions were well attended by core technical persons in client countries; more than half

the participants filled in the country-level surveys requested in advance; the choice of topics was in-depth and sophisticated and went beyond the early compilations of guides to bond market development undertaken hitherto by the Bank Group;[30] (iv) the method of delivery was self-evidently low-cost and convenient, allowing access to a much broader audience; (v) Peer Group dialogues offered a quick vehicle for sharing and building up peer group networks across countries; and also (vi) allowed the World Bank Group to maintain an up-to-date knowledge of countries' issues in the area of debt market development, useful for guiding subsequent technical assistance.

As regards the GEMLOC advisory services projects, outputs of the country programs were largely achieved, though in some cases it is still too early to know final outcomes (as in the Brazil ID-ETF), or, the need for in-country agreement among different parties makes it difficult to make progress with the recommendations of the program (= Kazakhstan). External peer review comments were complimentary with regard to topic selection and audience participation.[31] Background notes prepared for each Peer Group dialogue were typically of high quality. Yet the team could go beyond raw compilations of countries' answers, drawing conclusions, and providing accessible online publications. Dialogue with other areas of the Bank Group could be increased. There was limited communication between the GEMLOC work, for example, on cash management and target cash buffers, and the Banks' macro and budget management teams.

There were areas of the Bank Group GEMLOC program that were admittedly less successful. eCollaborate was not a success, and the GEMX index was not widely adopted. Yet, it is argued that these are the consequences of a high-risk and experimental approach toward program design. The GEMX index could have geared itself better to market needs; its limited adoption suggests low impact on investments in emerging market local sovereigns. Nevertheless its continued survival, and the recent adoption of elements of its current methodology for other indexes such as the Asian Bond Fund 2, may be regarded as a success and an incentive to contributing countries to improve their performance parameters. Finally, the PIMCO fund did not succeed in attracting hoped-for large volumes of funds, and closed in 2015. The fund has therefore not been effective when judged against the criterion of sustainably increasing investments in this asset class. Yet for the period that it operated, it had positive development benefits by providing resources to fund GEMLOC advisory services.

Although the delivery of GEMLOC programs was *efficient*, its management of knowledge was less so, and program *sustainability* is vulnerable because core funding has ceased. The amount and diversity of GEMLOC activities were rich, and delivery was cost effective. Yet program documentation was frequently incomplete, limiting the Bank Group's systematic use of such documentation to build an institutional memory and access lessons learned. The drying-up of PIMCO funding raises issues for sustainability. Although SECO may be a new source, the multicountry aspect must be safeguarded. Pooling of resources with the Debt Management

Fund is also possible, possibly aided by a future rebranding of the program toward the broader-based name of the Government Bond Market program. These issues are taken up in greater depth in Chapter 7.

ESMID - EFFICIENT SECURITIES MARKETS INSTITUTIONAL DEVELOPMENT PROGRAM

ESMID, which began shortly after GEMLOC, also developed as a joint IFC and World Bank program, intended to complement GEMLOC, through a focus on nongovernment bond markets to finance priority sectors such as infrastructure, housing, and microfinance.[32] Initially funded solely by SIDA, it began operations in Africa in 2007 with a pilot program in East Africa (covering Kenya, Rwanda, Tanzania, and Uganda). ESMID/SIDA expanded operations to Nigeria in 2009. Subsequently, ESMID obtained funding from SECO for expansion to Latin America, where it focused on Colombia, Peru, and other countries participating in the Integrated Latin American Market (MILA). (Unlike GEMLOC, which had no previous comprehensive evaluation, there are three large scale external evaluations of ESMID; two in East Africa and one in Latin America.[33] Additionally, limited IEG evaluative material also exists on select ESMID projects. IEG's review builds upon these evaluations.

ESMID has dominated bond market development work at the Bank Group during the past five years because of the volume of its funding, large-scale projects, and integrated approach, linking capital market development to real sector funding needs.[34] ESMID's five core modules included: (i) legal and regulatory assistance to ease issuance for corporate bonds, develop market structure, and support securitization; (ii) deepening secondary markets through better bond market infrastructure, transparency of trading information, and improved efficiency of clearing and settlement; (iii) building capacity and providing training for all market participants, including licensing and certification programs; (iv) promoting the regionalization of capital markets and facilitating cross-border issuance and investments; and finally, (v) providing transactions support for bond issuance, especially in the context of infrastructure, housing, and priority sectors. Seven of the 14 ESMID projects reviewed by IEG were with the East African Community (Kenya, Rwanda, Tanzania, and Uganda), together with one project focused on Nigeria.[35] ESMID in Nigeria (2008, Project 562707, $1.13m) was managed under the ESMID East Africa program umbrella, with a similar design. The projects comprise a combination of IFC and World Bank codes and their separation into component projects appears to be for administrative reasons. They are therefore reviewed collectively here.

The concept for regional integration of the bond markets of the East African Community (EAC) countries appropriately built upon current political will to enhance regional harmonization and also made sense for market development, and therefore had a high degree of relevance, as pointed out by the external review of the first phase of the ESMID East Africa program (the Carana Corporation midterm evaluation of 2009).[36] Hitherto, each country maintained different requirements and systems for bond issuances, making it difficult to access larger regional pools of capital. The extreme number of processes raised the time to issue a bond, and the cost of

issuance was high. Only a handful of corporate bonds existed (between one and eight in the EAC countries). The joint Bank Group was uniquely situated to help at this juncture, combining the policy expertise of the World Bank with the transactional experience of IFC. ESMID East Africa initiated diagnostics of regional barriers, later also discussed in a World Bank/IMF East Africa Regional FSAP.

Several program outputs were reported, largely in terms of numbers, workshops, or stakeholders, but also with indications of specific reports and program action in some areas. The Carana report mentions specific outputs for each component, notably diagnostic reports and roadmaps for legislative reform and market strengthening, and a strategy for regional integration, and several capacity-building events, reported to have been delivered at lower cost than hitherto, and to more people. The report also pointed toward the transactional support for issuance that was being extended to at least six potential issuers, with an immediate pipeline of over $100 m in issuance. And in terms of outcomes, the report indicated positive impact in Kenya: a reduction in the number of days to process a bond issuance, and in the costs of issuance.[37] A similar action path was followed in Nigeria, where market-strengthening activities included the implementation of market-clearing and settlement infrastructure for operating over-the-counter trading information and systems, as well as post-trade transparency through daily publishing of settlement information.

The Carana evaluation was cautiously positive about program outcomes, concluding that "the most significant input of the ESMID program, at this stage, was the bringing together of hitherto 'silo-ed and independently operating organizations' to work on common strategies for addressing the issues of fragmentation of bond markets." Overall, the Carana evaluation reports highly satisfactory results for both the legal and regulatory areas as well as for capacity building. However, lower ratings were reported for regional integration and for strengthening the marketplace. Successful transaction support had the lowest ratings, with doubts about the sustainability of these efforts. These fears were eventually realized; none of the six identified transactions had come to the market by 2015.[38]

At the conclusion of the ESMID program in East Africa and Nigeria in 2013, a more definitive end-of-program evaluation was conducted, which had a very positive overall message (Bourse/ Genesis 2013), with however some cautions on sustainability. It noted the positive impact of the Bank Group in acting as an independent coordinator, and reports agreement on a single framework for regional bond issuance, together with new guidelines governing market making, book building, securitization, asset-backed securities and over-the-counter bond trading, as well as the training of more than 2,000 market participants, and the reduction in time taken to issue nongovernment bonds, and the reduced issuance cost. Moreover by this time, it reports that ESMID collaborated with issuers and intermediaries to identify, structure, process, and bring US$101 million of demonstration transactions to market in East Africa, and US$362 million in Nigeria. It cautioned, however, that positive outcomes were skewed in favor of the countries

where ESMID had a resident team, that buy-in among regional regulators was difficult, and finally, that demonstration transactions had been frustrated by structural macroeconomic factors and demand-side issues. It also pointed out that more needed to be done in capacity building, as well as further time and cost reduction for bond issuance.

The Bank Group's completion reports on ESMID East Africa broadly accepted the conclusions of the Bourse Consult/Genesis Analytics report, claiming excellent output achievement and satisfactory overall outcomes and impact. The Bank Group produced separate completion reports on the ESMID East Africa program and on the ESMID Nigeria program in March 2014. Both reports pointed toward achievements that included an indirect contribution to the tenfold increase in cumulative nongovernment bond issuance between 2007 and 2013 in the EAC. Similar outcomes were achieved in Nigeria. The reports cautioned as to the need for stakeholder buy-in and difficulties in achieving regionalization when domestic interests are at stake. Finally, IEG also produced an evaluation note, but only on the smaller Nigeria program (562707), which cautiously rates the project's Development Effectiveness as *mostly successful*, pointing, in Nigeria, to shortcomings related to achievement of expected nongovernment bond market growth, lower than expected pension investment in nongovernment bond assets, and the need for further capacity building. The present evaluation, however, adds evidence from the Nigerian government documenting impressive recent achievements in domestic capital market development, explicitly acknowledging the contributions of IFC's ESMID program.[39]

ESMID in Latin America

The five projects in the ESMID program for Latin America, officially launched in 2012, covered both Colombia and Peru (ESMID LAC), adopted similar program goals to ESMID East Africa, and are also discussed collectively here.[40] There was a single external end-of-program evaluation (AFI September 2014) and a single internal IFC "Advisory Services Completion" document. Program goals paralleled those of ESMID East Africa, with specific program targets in terms of market ready transactions, increased bond issuance, new regulations, and training.

The external program evaluator, AFI, concluded that core program objectives had been accomplished but challenges were noted and echoed by the Bank Group's team. AFI maintained that ESMID in Latin America had provided assistance on the demand, supply, and regulatory fronts, increased political buy-in, and helped with capacity building and dissemination—as affirmed by market participants. Additionally, reforms resulted in greater investability by institutional investors, improved financing conditions (that is, access, price, and terms) and reduced issuance time. Yet absorption capacity and consensus building remained a challenge, together with continued competition from banks and long lead times for transactions to come to market. There were difficulties related to technical complexities and timing. Thus, an overall roadmap was prepared in Colombia but implementation regulations in some areas, such as

mutual fund investors, were not. Progress was slow and painstaking. A transaction was achieved for a relatively straightforward bond issue—Credifamilia—but the infrastructure bond issues remained pending. 41 In terms of regionalization and capacity building, internal events were organized by cross-country events, and coordination with MILA proved more difficult. The internal IFC evaluation assessed that the impact of the project at a broad level had not been achieved. The external evaluators and Bank Group staff concluded that such further challenges could perhaps be tackled by the successor Bank Group Deep Dive initiative, discussed further below.

IEG's present evaluation concurs that program objectives were relevant in both regions. Program design was ambitious, with its emphasis on going "from regulations to transactions." ESMID also foresaw the benefits of regional integration, moving away from market fragmentation and toward deeper markets—a shortcoming of more ad hoc and country-focused initiatives such as those under the FIRST programs.42 However, it also revealed the difficulties inherent in such an approach:long lead times for legislative change, project finance, effecting behavior change, and building multi-country consensus.

Private sector agents in these countries point out that the value added of the World Bank was in its "honest broker" role and ability to bring together other needed areas of prior reforms required for the market as a whole. Although it may be questioned whether a focus on corporate bonds and individual transactions could distract from a focus on a conducive environment, such bottom-up support could help to facilitate initial transactions. GEMLOC work had a greater focus on government fiscal management and stability considerations, whereas ESMID has been driven by a financing for development agenda. Nevertheless, attention to the broader environment, for example, between the bond market and the banking sector, cannot be ignored, as Colombia, with its close bank-corporate connections, suggests, and continued attention to structural issues is important.

Overall, both ESMID Africa and ESMID Latin America delivered a large number of outputs in each of their components; yet these do not necessarily add up to impact, in part because of the long-term nature of change in these areas. Numerous regulations and laws were drafted, many training events were held, a number of reports and roadmaps were delivered, and a number of transactions were facilitated. Yet these are not the best metrics of program impact, especially in such areas as consensus on a regional common strategy, or expanded overall finance for developmental goals. In East Africa, however, Bourse/Genesis (2013) were "optimistic that ESMID interventions have successfully created an enabling environment such that when markets targeted by the Program do grow, some of the most important constraints to accessing, investing, and trading in securities markets have already been identified and addressed. In other words, the Program has laid a foundation for future development and growth of securities markets."

OTHER BANK GROUP INTERVENTIONS

IEG also notes bond market development work undertaken by other areas of the Bank Group, notably a cluster of interventions undertaken by the Bank Group Macroeconomics anchor and by the World BankTreasury.[43] The focus is on establishing an asset-liability management framework to help governments balance their financing, cost, and risk objectives. As part of this role, components are sometimes included to deepen domestic public debt markets; — in primary markets, for example, auctions, issuance policies (including benchmarks, liability management operations), transparency and predictability of issuance, and secondary market liquidity. IEG's bond market portfolio identified eight FABDM projects which included some government bond market development components, across a spectrum of countries.

Available documentation is mixed and often scanty, but based on limited evidence, outputs and outcomes seem largely positive. In principle, projects' objectives and designs should be relevant because they are based on a Needs Assessment, provided that subsequent reform plans were well structured. It is not possible to assess this however, as the Needs Assessments or Reform Plans are not available among project documents. Although full evaluations of the FABDM program have not been undertaken, an independent external evaluation of the World Bank's Debt Management Facility (DMF) was recently undertaken, which recommended even closer links between the DMF and the Capital Markets group programs.[44] IEG observes that since this report, the Capital Markets group has discussed the possibility of active funding support from the DMF. Overall, the DMF/FABDM cluster of work illustrates evidence of close and productive collaboration across different areas of the World Bank in the area of public debt market development, and IEG suggests that even closer links with public debt management may be useful; for example, cash flow forecasting and the development of a debt issuance calendar.

Finally, the preceding sections do not include the large array of World Bank work undertaken through freestanding, typically country-specific projects. Such country work has been undertaken in the form of World Bank–financed AAA, sometimes with support from donors (Japan, Ireland, the FIRST program), through reimbursable advisory services (China, Egypt, Kazakhstan), and sometimes supported by lending. Some countries supported by GEMLOC or ESMID also received World Bank support though policy-based or technical support loans (Kenya, Colombia and Morocco are examples). Others independently undertook work in the areas of government (Albania, S. Africa) or corporate (India, Turkey and Azerbaijan) bond market development. Some of these are illustrated in the country case studies discussed below. In addition to the joint IFC/World Bank Capital Markets department, IFC has also offered transactional support for bond market development, both through the purchase of bonds issued by banks and corporations in client countries and by credit enhancements offered to bond issuers, to improve their ratings for other investors. Such transactions have been few, though there has been a recent acceleration (Appendix 2.2).

***Looking Ahead: The Deep Dive Approach*[45]**

The Deep Dive approach seeks to leverage resources across the sectoral areas of the Bank Group to improve the Bank Group's ability to help countries develop local capital markets to finance large-scale strategic development needs, including infrastructure, housing and small and medium entperprises (SMEs). In the eyes of the Capital Markets Department, the Deep Dive is the next step forward after programs such as ESMID, which, while far-reaching, were not cross-sectoral. At present, however, given that the adoption of the Deep Dive approach is relatively recent, it is too early to assess its effectiveness. The Deep Dive approach may be illustrated by considering its implementation in Colombia, where it is assisting Colombia build its bond markets to finance a $25 billion toll road program. It is believed that these infrastructure financing demands are too large to be met by the Colombian government and local banks.[46] Local bond markets are needed to mobilize long-term financing from institutional investors, especially Colombia's large pension funds and foreign institutional investors. The project leverages Bank Group advisory, investment, and Treasury resources from nine Bank Group units and, in addition to advisory services to strengthen the PPP framework, includes an IFC investment in the domestic infrastructure development bank, and possibly a local debt fund, pension fund capacity building to invest in infrastructure bonds, and transaction support for the 4G toll road highway financing.

Bond Market Development: Links to Country Strategies and Sequencing over Time

IEG next examined three additional questions which could not be addressed by project-level reviews, and required a perspective of overall country programs with regard to bond market development: relevance and significance in the country program, interactions between lending and advisory support, and links between the Bank Group's interventions and country outcomes. Although it is not possible to attribute changes in bond market behavior to World Bank interventions, associations may be traced through a combination of knowledge of interventions and market movement. Details are provided in Appendix 2.3.

Bond market development was not prominent in many country strategies, and the level of influence of FSAPs was variable. In Morocco, the FSAP, as well as programs under FIRST and GEMLOC, were influential in designing a work program, and enthusiastic FSAP and CAS support was observed in Colombia; the latter escalated with the ESMID program. In Kenya too, recognition of bond market development in CASs/CPSs increased in the later part of the review period, explicitly in both the 2010–13 and 2014–18 CPSs, reflecting the ESMID interventions. Its two country-specific FSAPs provided good guidance on overall program design. By contrast, since Vietnam's first FSAP was concluded in 2014, it was only able to inform the latest project in the series, which it partially did. Vietnam's CASs, in the early years, did not mention World Bank work in this area. And in India, the FSAPs of 2001 and 2013 both raised issues relevant to

bond market functioning, which did not feed closely into program design, or into Bank Group Country Strategies.

Program designs were relevant to country objectives in most but not all cases. The Bank Group used a variety of instruments to underpin its programs, and they typically provided valuable mutual reinforcement. Kenya, Morocco, and Colombia had combinations of interventions including, in each, a series of World Bank loans (especially development policy loans in Colombia and Morocco); large-scale support from ESMID (Colombia and Kenya), as well as advisory assistance under GEMLOC (Morocco), FIRST (Colombia, Morocco, and Vietnam), and the Debt Management Department (Colombia). Such serial intervention, even if not strictly programmatic by design (and in the case of Kenya, scattered across several projects and themes), enabled sustained and incremental engagement. Two countries, India and Vietnam, had no bond market development programs at all under GEMLOC or ESMID. Yet, Vietnam's BB and FIRST–supported interventions helped to build sustained dialogue. In India, in contrast to the other countries, interventions were narrow in focus with no reinforcement from lending. The World Bank's early high-quality technical inputs covered only a narrow spectrum of issues confronting the Indian bond market, raising questions about the relevance of program design.

All five case study countries showed significant bond market development over the review period. Though much of this progress was independent, there are some positive outcomes that can be associated with Bank Group interventions in four out of five countries. Morocco's program had a clear positive effect on the government bond market's structure. The World Bank's interventions in Kenya have shown some success in both the government and corporate bond markets, as well as some support to transactions. Colombia already had a well-functioning government securities market but challenges remain with corporate bonds, and with the goals of transactional support set by ESMID. Outcomes appear promising but are not definitive yet.[47] The Bank Group's interventions in Vietnam had valuable outcomes in terms of the basic institutional framework, successfully setting the stage for the deeper engagement that is now ongoing. However, in India, despite early promise and high-quality Bank Group inputs, over time, the dialogue has been difficult to sustain.

Country case studies underscore the importance of client commitment as key to successful outcomes. Vietnam and India provide interesting contrasts. Even the absence of a Vietnam FSAP before 2014 was not an obstacle to a sustained and well-adapted Bank Group program, owing to strong client buy-in. In India, the Bank Group team, though undertaking high-quality work and keen to respond to government needs, was limited in the scope of its engagement, and thus unable to engage in critical themes relating to the government bond market, or to address core underlying factors affecting corporate bonds in the medium term.

Box 2.2 Local Bond Market Development and the Bank Group: Vietnam

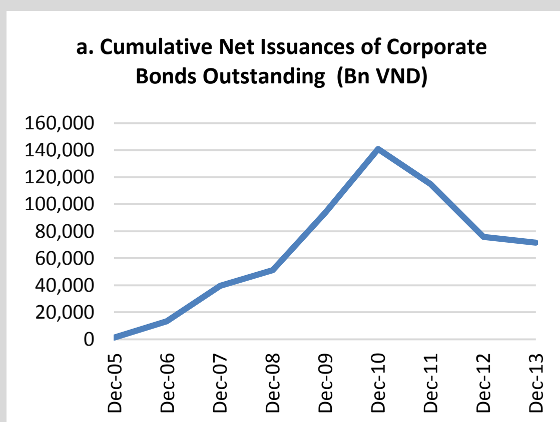
Relevance of Program Objectives and Design

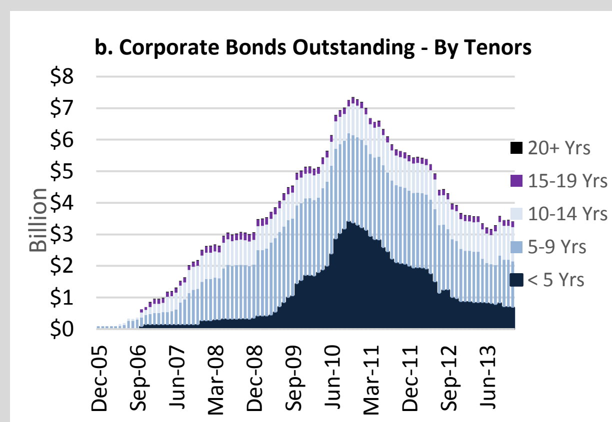
The Bank Group has had a continuous series of interventions to support bond market development since FY08, beginning with a Bond Market Development Roadmap in FY08, followed by a flagship bond markets project (FY09–14) that focused on both government and corporate bond markets at varying phases. The third, follow-on project, still under way today, is the FIRST-funded Vietnam Bond Markets Development project (2014), which focuses on current government bond market challenges. The focus is now more on the government bond market. Country client commitment was high though the 2004/ 2007 Country Partnership Strategu andProgress Reports do not mention bond market development or the interventions. And since Vietnam's first FSAP was concluded only in 2014, it was only able to inform the last project in this series. Engagement emerged as a pragmatic response to pressures in the equity markets, to absorb the high level of savings and help avoid a valuation bubble. Accordingly the program of work undertaken was also pragmatic, beginning with the creation of core institutions and setting of standardized market practices. Following the Roadmap, work began with support for the creation of an institutional platform, a Code of Conduct, and a Market Conventions handbook, now reflected in a government regulation on issuance of government bonds, methods of calculation of interest rates, etc. This was followed by the so-called Back Office Manual (BOM) which actually covers back, middle, and some front office functions. Beginning in 2012, the project also helped the Vietnam Bond Market Association establish a treasury securities yield curve by creating a mandatory bidding process. The successor Vietnam Bond Markets Development project drew upon the 2014 FSAP and built programmatically upon the two preceding projects.

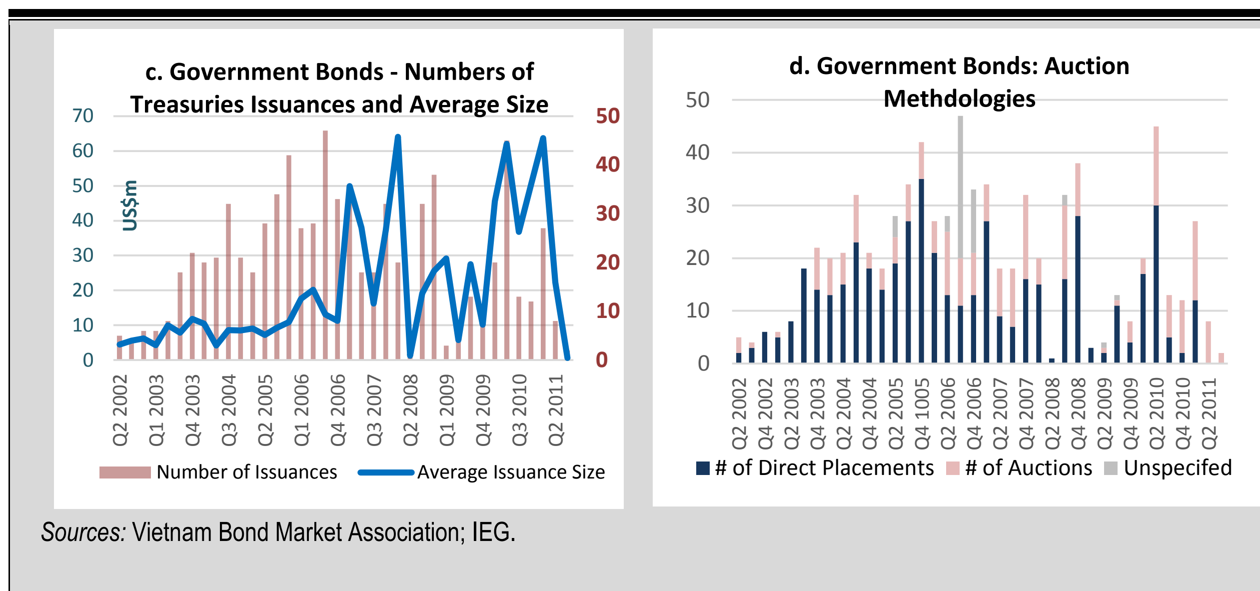
Effectiveness: Program Outcomes

IEG finds an increase in the volume of mid- to long-term ***corporate*** bond issuance that could be associated with, if not attributed to Bank Group interventions. Bonds with 5–9 year maturities rose from almost zero and peaked at $2.7 billion at April 2011, stabilizing at $1.4 billion at December 2013. Bonds with maturities of 10–14 years rose throughout, to a maximum of $1.6 billion as of December 2013. Yet the overall corporate bond market segment remains small.
Although Vietnam's ***government*** securities became more effective over the period reviewed, the areas of improvement, while needing attention, were not defined in the scope of the Bank Group intervention. Initially, there were a very large number of offerings per calendar quarter, but the average offering size was small. There were also a large number of tenors of debt on issue. Over the period reviewed, starting from 2007, Vietnam began to address pressing areas of needed improvement: public debt management and the distribution of tenors (consolidating its fragmented issuance pattern and evening out the range of maturities) and increasing the use of auction methods rather than direct placement at banks. However, although World Bank staff may have been engaged in dialogue with government authorities on these questions these areas were not included in the scope of the ongoing Bank Group flagship project.

Vietnam – Domestic Corporate and Government Bond Markets (2005–13)







Sources: Vietnam Bond Market Association; IEG.

There are valuable lessons that can be learned across countries' experience, and the Bank Group should harness such opportunities. It is interesting that today, Kenya and India face similar 'second-generation" challenges with setting up a corporate debt market: the large and liquid banking sector and its close links to domestic blue chips; the high rates on government debt that can crowd out nongovernment issuers, the preference for private placement, and the poor corporate governance at some potential issuers. Colombia's early success with Treasury bonds could be a useful example to other countries. There is considerable scope for the Bank Group, even beyond the Peer Group dialogues, to juxtapose and share these experiences for the benefit of all its clients.

Finally, Bank Group information on countries' domestic bond markets is insufficient for monitoring market development. At present, coverage in FinDebt appears focused on offshore/dollar-denominated issues, which limits its use as a monitoring tool. IEG's country case studies revealed that Bank Group information, available in its FinDebt database and drawn largely from Dealogic and Datastream, grossly underreported local bond issues in its case study countries, compared with information available from the countries themselves (Vietnam), and from Bloomberg. Appendix 2.4 provides a comparison of data for select countries, over the past 15 years. In India, for example, FinDebt reports between one and three issues over the past five years compared to between 111 and 165 in Bloomberg. Bloomberg too appears to have some gaps, and information from local sources would be ideal. Deeper exploration of this issue is desirable.

Building Bond Markets Through World Bank and IFC Treasury Operations

IBRD and IFC, and other multilateral development banks, have been active in the area of issuing bonds in "non-core" currencies, including currencies of their client countries, to meet

their funding requirements. Although the bulk of such local currency issues have been offshore, and have been swapped back to U.S. dollars, a few have been onshore issues in domestic debt markets.[48] Local currency issues, even offshore, can support client countries' financing requirements, matching the currency of liabilities and assets.[49] Undertaking such bond issuance also supports local financial market development through their *signaling and demonstration effects;* helping to smooth the steps required for such issuance. They strengthen confidence in the stability and safety of the countries' domestic bond markets, attracting foreign issuers and investors, aiding the development of new asset classes. They can reduce funding costs and diversify the funding base. Highly-rated bonds issued by IFIs can encourage foreign investors to enter local markets, with the initial decoupling of credit risk and currency risk.

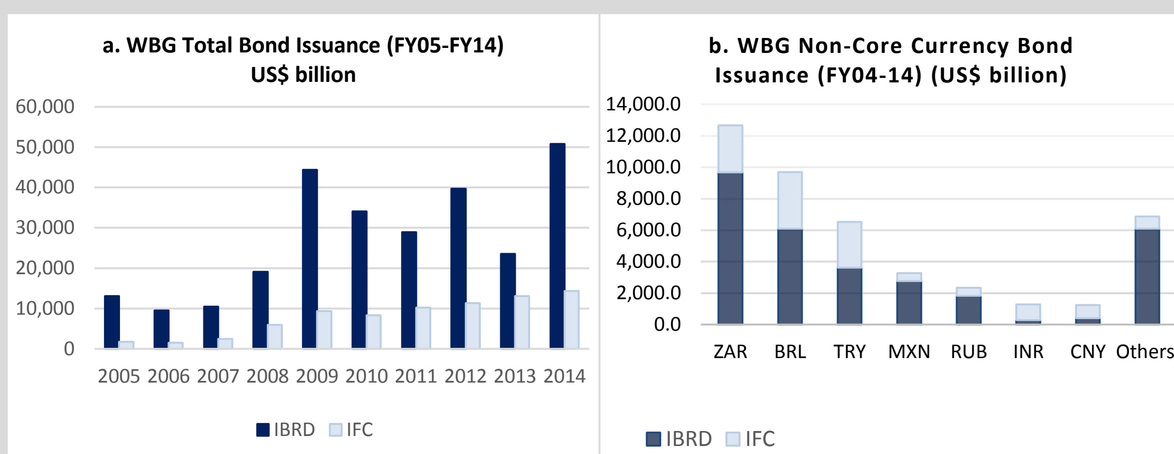
Box 2.3 IBRD and IFC Risk Management Tools for Clients: Deepening Domestic Capital Markets

Both IBRD and IFC Treasuries offer their clients a range of hedging products and derivatives solutions, integral to IBRD sovereign loans as well as to IFC investments. IBRD also offers interest rate and currency swaps in relation to eligible borrowers' non-IBRD debt, and IFC offers transaction support for clients' derivatives-related business which does not directly involve an IFC investment project. Although these activities lie outside the scope of the present evaluation, IEG notes the importance of these risk management and mitigation tools that help to identify "gaps" in emerging markets for hedging risk; notably interest rate risk, currency risk, and risk due to commodity price fluctuations. Beyond specific transactions, borrowers benefit from IBRD and IFC's transaction execution experience and knowledge of derivative pricing methods. Clients build their knowledge and institutional capacity for using derivative instruments, and increase their familiarity with standard international documentation. Better market capacity to mitigate the relevant risks helps lenders and borrowers to better distribute risk across domestic banking and capital market sectors and enhances the liquidity of and depth of domestic capital markets.

Sources: IBRD and IFC Treasury departments, IEG.

IFIs' local currency domestic bond issues offer additional potential contributions to local financial market development. In addition to the extension of maturities, and potentially, a better defined yield curve, reduced risk of maturity mismatches, and a diversified investor base, especially for early issues, IFIs can help remove policy and regulatory impediments to such issues and help create a conducive market infrastructure. Other challenges include the investor base, clearance and settlement arrangements and, often, an inadequately developed currency and interest rate swap market (Hoschka 2005b). MDB onshore bond issues also seek exemption from domestic taxes and ratings, and require quasi sovereign risk weightings for capital adequacy, as well as reserve eligibility, for domestic banks. MDBs also face carrying cost by issuing bonds in domestic market because of mismatch in cash flow requirements of underlying projects and returns that can be obtained from interim investments in domestic financial instruments such as treasury bills. Thus their ability to issue bonds in these markets on a consistent basis is constrained. Given these tradeoffs. IEG examines the extent to which IFC and IBRD local currency bonds have contributed to capital market development in client countries.

Figure 2 Bank Group Bond Issuance – Total and Non-Core Currencies (Year and Currency)

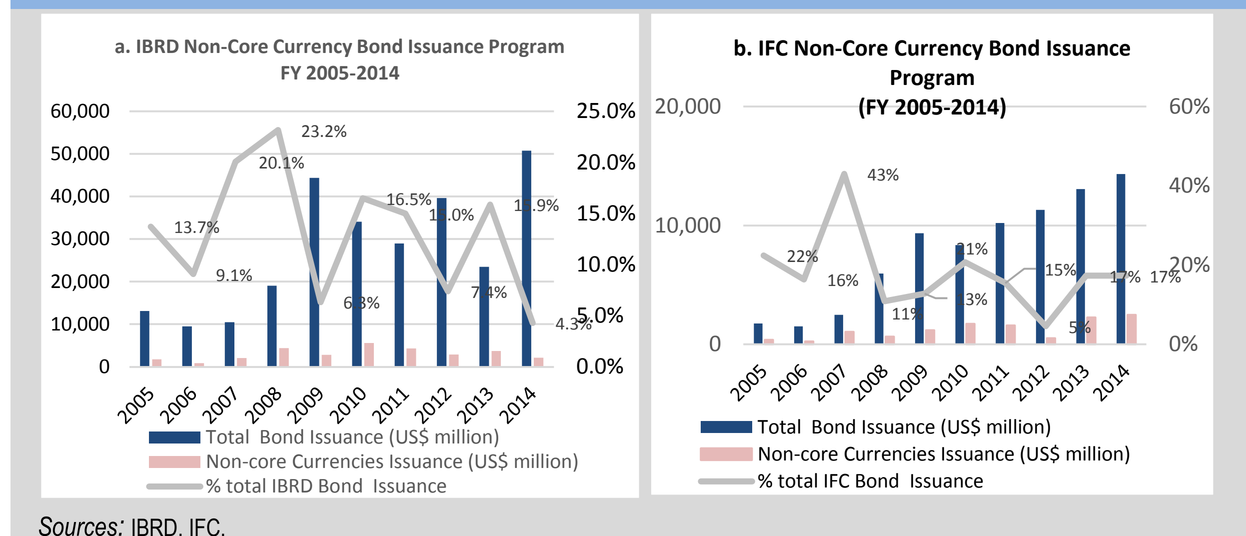


Sources: IBRD, IFC.

The primary objective of IBRD and IFC treasury operations is to mobilize resources on the best available terms in the marketplace. Additionally, since 2013, IFC has explicitly adopted the strategy of helping its member countries develop local capital markets through a specially created department within its investment and treasury operations.[50]

During 2004–15, the Bank Group raised US$43.9 billion through non-core currency bonds in 29 currencies (Figure 2 and Figure 3). Five currencies accounted for 80 percent of non-core issues for both IBRD and IFC. These are countries with open capital accounts and large debt markets that facilitate issuance in international markets through Eurobonds (offshore bonds), where the proceeds can be swapped back to U.S. dollars.51 Arguably, local fiscal deficits in some of these countries contribute to high nominal interest rates, so that Bank Group bonds denominated in their currencies are attractive to investors, who want currency exposure but not the credit risk associated with below-investment-grade debt instruments. As a result, the borrowing cost for the Bank Group in these currencies can sometimes be lower than issuance in core currency countries, or countries with better macroeconomic conditions and more developed domestic financial markets. Market demand for these exotic currencies was very high precrisis as the theory of decoupling was widely discussed, but IBRD and IFC experienced some decline in demand following the crisis. There was some revival as quantitative easing (QE) in the United States and other countries during 200812 depressed their interest rates. Demand for these currencies also varies according to the economic and political conditions in these countries.

Figure 3 Bank Group Bond Issuance – Total Issuance and Non-Core Currencies (Percent total issuance)



Sources: IBRD, IFC.

IBRD lends only to governments and has limited pricing options because there is no lending rate differentiation among IBRD members, and it does not take interest rate or currency risks. Its clients rarely have local currency needs because sovereigns can always raise funds locally. IBRD non-core currency bond issuance during FY2005–14 ranged from a high of 23 percent in 2009 to just 4 percent in 2014. Its borrowing program is anchored in a few benchmark issues in core currencies and a large number of smaller transactions (around 300 per year).

IBRD's Treasury Department also shares the objective of helping develop local capital markets in its member countries; it has been creative and introduced several notable innovations in emerging market countries through its medium-term note program, as illustrated in Box 2.4, despite the constraint that, because its main client is the sovereign, it has limited ability to borrow competitively in local markets. These included first-time issues on domestic markets, in local currencies (for example, in Colombia, Romania, and Uruguay), as well as other innovations including long-dated local currency offshore bonds (Turkish Lira), Sharia-compliant bonds (in Malaysian Ringgit), and bond funds in emerging market currencies.

Box 2.4 IBRD Treasury Bond Issues and Local Capital Market Development

Colombian Peso - March 2004. The World Bank's first 535.6 billion Colombian Peso bonds had a 6.5-year maturity. The coupon offered a spread of 4.40 percent over the Colombian consumer price index (CPI). This bond issue was a milestone for the World Bank because it was placed exclusively in a domestic market in Latin America, and listed on a Latin American stock exchange - the Bolsa de Valores de Colombia.
Malaysian Ringgit - April 2005. The World Bank launched the first Islamic debt issue of MYR 760 million (US$200 million equivalent), the largest Ringgit issuance by a supranational organization at the time of issuance. The bonds were structured under Sharia principles, priced at a profit rate per annum of 3.58 percent. The issue was oversubscribed by a diverse group of domestic and international investors. Proceeds from the bond issuance were swapped back into U.S. dollars.
Romanian Lei – August 2006. The 3-year, 6.5 percent World Bank issue was the first supranational issue in Romania, issued under local law and domestic clearing systems.

Emerging Market Bond fund: the "World Supporter" fund - June 2007. The professionally managed fund allowed its Japanese investors to purchase units comprising World Bank bonds in a variety of emerging market currencies, such as Brazilian real, Botswana pula, Chilean peso, Chinese renminbi, Colombian peso, Egyptian pound, the Euro, Ghanaian cedi, Hungarian forint, Indian rupee, Korean won, Malaysian ringgit, Mexican peso, Nigerian naira, Polish zloty, Romanian leu, Russian ruble, South African rand, Turkish lira, U.S. dollar, and Zambia kwacha. It provided the opportunity to participate in a diversified emerging market investment portfolio. The fund managers donate a portion of the fees from investors to IDA.

Uruguay Peso - May 2008. IBRD became the first foreign issuer to issue a public bond in Uruguayan Pesos. The proceeds were passed on to the Uruguayan Government. This was the first time the World Bank provided local currency financing to the government of a member country—because this transaction was issued for the purpose of a back-to-back disbursement of a specific loan, in this case the *First Programmatic Reform Implementation Development Policy Loan* (PRIDPL 1), approved in May 2007.

Turkish Lira 10-year Global Bond Issue - January 2007. IFR[1] named the World Bank's Turkish Lira 500m 13.625 percent global bond issue the best Non-Core Currency Bond of the year. This bond was the first-ever global benchmark transaction in Turkish Lira, with a maturity five years longer than the longest Turkish government domestic bond. It attracted more than 30 North American and European institutional investors and was five times larger than the average amount raised at launch in any previous Turkish Lira euro bond.

World Bank Emerging Markets Bond fund - June 2012. The fund received the "Most Innovative Product" award and was presented with the Best of the Best Country Awards in 2012 by Asia Asset Management. The fund is the first global emerging market currency bond fund in Hong Kong SAR, China with a China theme. At least 85 percent of its assets are invested in World Bank debt securities denominated in the currencies of China's trading partners in emerging markets and commodity-rich countries.

Source: IBRD Treasury.
[1] *International Financing Review*, Thomson-Reuters (core global source for capital markets intelligence).

IFC has more use for local currency raised through onshore bond issues for its project financing. It can take limited currency risk, on its balance sheet, within clearly defined prudential limits. Moreover, it has more flexibility in pricing its loans and more risk-taking capacity, given its mandate of financing the private sector. However, given the limited demand for these non-core currencies, among offshore investors and for IFC's own project financing needs in the context of onshore issues, it is generally difficult to achieve economy of scale. Most of these transactions are necessarily small compared to benchmark issues, and illiquid. Much of the purchase of IFC's bonds was in the offshore market by buy-to-hold institutions or retail investors (for example, the Uridashi in Japan), in search of higher yields combined with AAA ratings.

Box 2.5 IFC Treasury Bond Issues and Local Capital Market Development

Nigeria – February 2013. In February 2013, IFC issued the first local currency bond by a nonresident issuer in Nigeria raising NGN 12 billion (US$76.3 million). Out of this amount, US$25 million was invested in government bonds and the rest was swapped into U.S. dollars. IFC worked with the Securities and Exchange Commission of Nigeria to launch this long-term local currency bond program in the country, under IFC's Pan-African Medium-Term Note Program that allowed IFC to issue a series of local currency bonds totaling up to US$1 billion, to raise long-term local currency funding for the private sector in the region and deepen domestic capital markets.

Dominican Republic - December 2012. IFC issued a DOP390 million bond (about US$10 million) to support the development of capital markets in the Dominican Republic and increase the availability of local currency financing for the private sector. The bond carried a coupon of 10.5%, with a five year maturity and bullet repayment. IFC's bond, known as the Taino bond, was the first internationally rated AAA bond that was offered to investors in the Dominican Republic. It was also the first IFC bond in Latin America and the Caribbean whose proceeds are directly linked to private sector investments in the country. Major investors in the bond issue were domestic pension funds and other institutional investors. Proceeds from the bond were used to make long-term local currency loans to domestic financial institutions (Fondesa and La Nacional) and to support micro enterprises and low-cost housing. It took IFC almost three years to complete the transaction.

Russia – November 2012. In 2012 IFC received approval from the Russian Federal Service for Financial Markets to raise up to US$730 million equivalent in the domestic market. As a part of this program, IFC launched its first Volga bond in November 2012, raising RUB 13 billion (about $410 million) for private sector development. The bond had a maturity of five years, and IFC claimed it was the first inflation-linked corporate bond issued in Russia. The bond offered AAA credit for institutional investors such as pension funds, and aims to encourage greater investor participation in the markets. Out of US$410 million raised from the bond issue, US$310 million was swapped into U.S. dollars and about a quarter, or US$100 million, was placed in a pre-fund pool that could be disbursed for Russian projects in the future. The interpretation of the inflation index has, however, been problematic and greater investor participation has not been encouraged.

Source: IFC Treasury.

The pattern of IFC's non-core currency bond issuance during 2005–14 was similar to IBRD (Figure 2, Figure 3 and Appendix Figure A2.1). During FY 2005–14, IFC raised US$12.1 billion through non-core currency bonds, peaking at 43 percent of total issuance in 2007 and contracting sharply to 4.6 percent in 2012 for reasons discussed earlier. Similar to IBRD, IFC swaps its offshore borrowings into U.S. dollars. However, IFC has more flexibility than IBRD because of its mandate of exposure to private sector credit risk through investment operations in client countries, which can also involve local currency risk. In 2013, an explicit decision was made by IFC management to increase IFC's role in the capital markets of its member countries, especially through its local currency bond issuance program, local currency derivatives, and structured products, to reduce clients' reliance on cross-border funding (IFC Road Map FY13–15). A new IFC unit was created for this purpose. Examples of IFC's recent bond issuance activities and their contribution to capital market development are discussed in Box 2.5 and Appendix Figure A2.1. As the examples illustrate, a considerable part of the proceeds were swapped back to U.S. dollars–About two-thirds (in Nigeria) to three-quarters (in Russia), while the rest were put into Treasury bonds awaiting project-level disbursement. The bonds offered AAA investments for local investors, and proceeds from the sale were sometimes used to make local currency loans to domestic financial institutions (for example, the Dominican Republic).

In India, IFC made offshore and onshore issues. In October 2013, it reached an agreement with the Government of India (GOI) to issue rupee bonds off-shore up to US$1.0 billion (Phase 1). Under this program, IFC issued six offshore 'Masala bonds' totaling US$1.0 billion with maturities of 3, 5, and 7 years, that successfully attracted a broad range of investors globally. Following the success of Phase I, IFC began a second Phase of offshore Masala bond issuance, announcing a US$2 billion program. In November 2014, IFC issued a 10-year, INR10 billion bond (equivalent to US$163 million) in offshore markets to support infrastructure development. By end-April 2016, IFC had issued INR 110 billion offshore (approx. $1. 7 billion) in 7 tranches with tenors ranging from 3 to 15 years, thus establishing the first "AAA" offshore rupee yield curve.52 These "Masala bonds" were listed on the London Stock Exchange and were the longest-dated bonds in the offshore rupee markets.53 Most investors in this bond issue were fund managers looking for exposure in Indian rupees without the credit risks. Proceeds were swapped back into U.S. dollars, and funds became available to support private sector projects in India, including infrastructure bonds. IFC invested INR 65 billion of Masala Bond proceeds in Indian corporate bonds and was able to borrow at about 200 basis points below comparable government of India bonds.[54]

Under Phase II, IFC also received approval to issue onshore rupee bonds —Maharaja Bonds.[55] In September 2014, IFC launched its onshore rupee program of INR 6 billion (US$100 million) in four different tranches. The first two transactions were two domestic bond issues of INR 1.5 billion each (5- and 10-year) and were listed on the National Stock Exchange. These were targeted at overseas investors and IFC was able to price below the comparable government of India benchmark by about 50 basis points. The remaining two tranches, with longer maturities of 13 and 20 years, were structured as Separately Tradable Redeemable Principal Parts (STRPP) to avoid carrying cost. IFC paid 20–30 basis points over comparable government of India benchmarks. The proceeds of the Maharaja Bond program are intended for IFC's infrastructure projects in India and are hence structured to match the nature of loans to such projects

EVALUATIVE COMMENTS: CONTRIBUTIONS OF BANK GROUP TREASURY OPERATIONS TO CLIENT CAPITAL MARKET DEVELOPMENT

In terms of the *relevance of the objective* of local currency capital market development for the respective Treasury departments of IBRD and IFC, it must be recognized first of all that the primary objective of both Treasury Departments is to raise funds for their respective institutions on the most cost-effective basis. Treasury operations policies are conservative and, in principle, neither institution takes exchange risks. Beyond this, IBRD lends only to governments, who have no need to borrow money in local currencies because they already have ready access to such funding. Thus *IBRD's objectives are not directly relevant* to local currency capital market development in terms of its local currency bond issues. In contrast, IFC's Treasury Department *objectives are directly relevant* to local currency capital market development, and it has a distinct business model, different from IBRD. With the modification in its mandate since 2013, IFC is expected to play a more active role in assisting member countries in developing local currency

bond markets, through its client solutions department.[56]Its operations involve taking risks, and therefore, assisting clients to mitigate foreign currency borrowing risks is clearly associated with its business model.

In terms of the relevance of design, IBRD's Treasury Department instruments are generally market driven. Its funding policies are based on conventional practice in global financial markets, especially developed countries, where it sources most of its funds. IBRD has been contributing to its primary objective through the issuance of non-core currency bonds when favorable in terms of least-cost risk-adjusted resource mobilization. It has also brought innovation: for example, introducing new instruments (as in the Malaysian ringgit Sharia-compliant bond); extending maturities (as in Turkish lira); or paving the way for supranationals and offshore entities to issue debt onshore (as in Colombia and Romania).[57]

IFC, because of the difference in its mandate as well as its local private investments, has the ability, and a business reason, to play a more active role in helping member countries in developing their local capital markets. IFC also has the ability to adopt differential pricing policies and can bear some carrying cost of borrowing in domestic markets, within prudent limits. For both IBRD and IFC, however, it is difficult to issue bonds in local currencies that are significantly below sovereign, except in some exceptional cases. The ability of IFC to actually contribute in this area is generally constrained by country conditions, funding needs for private sector projects, the cost of funding in such countries and their charge on its balance sheet.[58]

Effectiveness

Because *IBRD*'s Treasury Department did not have a mandate to help member countries to develop their capital markets, its effectiveness cannot be evaluated against this yardstick, per se. It is, however, clear that IBRD has been a pioneer in introducing new and innovative instruments for member countries (Box 2.4). Yet, it would be difficult to claim that they helped member countries grow their-local currency bond markets, made a major contribution in developing market infrastructures, or created a yield curve. Almost all such bonds issued by IBRD are registered offshore and swapped into U.S. dollars or euros. The absolute volume of bonds issued by IBRD and other MDBs combined is small in comparison to the size of major emerging markets. IBRD's offshore issues have, however, been valuable in sensitizing a broad range of investors to the potential of investing in these currencies and markets.

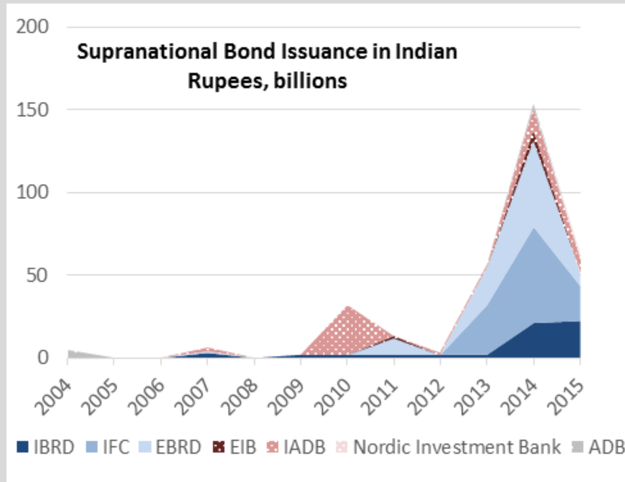
IFC's Indian Rupee program, especially its offshore 'Masala" bonds, can be considered a success because it has been able to scale up to US$1.7 billion. IFC's successful issuance also influenced the Reserve Bank of India's decision to permit domestic Indian entities to access the offshore Masala market. The impact of the onshore Maharaja Bonds is small, however, given its total size of INR6 billion (US$100 million) (Box 2.5). The ability of IFC to penetrate India's domestic bond market is challenged by cost because it has to pay a spread over sovereign. Mismatch of cash

flows between funding requirements of actual projects and IFC borrowing creates a carrying cost. In other countries, IFC's local currency bond activities will also be constrained by prevailing macro and market conditions, issue cost, balance sheet charges and the need for transparency to local players. Nigeria is an example of likely macroeconomic constraints. The size of the bond issued in the Dominican Republic (the Taino Bond) was only US$10 million and it appears to have been costly and time-consuming; however, its proceeds were used to finance a loan to IFC projects. IFC's bond issue in Russia introduced a potentially novel product, an inflation-linked bond, but its novelty made it difficult for the market to understand and it remains controversial.[59]

Among other IEG case-study countries, IFC issued a single local currency bond, onshore, in Morocco in 2005, with a face value of MAD1 billion. IFC and IBRD both made local currency issues in Colombia.[60] As in Nigeria, proceeds in Morocco were swapped back to U.S. dollars. According to market participants, the Morocco issue had a limited impact on maturity, regulatory infrastructure, or pricing of subsequent bond issues. IFC also issued locally in Colombian pesos (COP) in 2002 (and IBRD followed with a local issue in 2004) but neither followed with repeat issues.[61] Colombia's yield curve does not seem to have benefited perceptibly from the issuance of Bank Group Treasury bonds because it already issued its own bonds with long maturities. Currently, IFC is planning to issue up to $500 million worth of local currency bonds through a streamlined issuance framework for qualified institutional investors (the so-called Segundo Mercado). This could potentially attract other new issuers.

Box 2.6 IFC Treasury Bond Issues in Indian Rupees: Impact on Capital Market Development

IFC's $3 billion offshore "**masala**" bond issuance program leveraged its expertise and reputation to attract foreign investors to Indian rupee–denominated bond issues, allowing investors balancing their exposure to currency risk with the AAA rating of IFC's credit risk. The issue signaled confidence in the Indian economy and brought in a new and diverse range of investors as well as additional and cheaper funding for development projects, at rates that were lower than domestic borrowing by up to 100–200 bps. Its series of bonds of different maturities helped create an AAA rupee yield curve in the international offshore markets. A major benefit has been the demonstration effect that prompted India's central bank (RBI) to recently issue guidelines permitting other Indian entities to issue offshore bonds. In November 2015, the Indian Railway Finance Corporation (IRFC), was preparing an offshore rupee-denominated bond issue, aimed at raising $200–300 million, also to be listed on the London stock exchange—and avoiding currency mismatch. The proceeds of IFC's bond issues were kept in local currency to fund IFC's local currency investments in banks and infrastructure projects, including a US$100 million equivalent infrastructure bond issued by Axis Bank and a US$50 million Green Bond issued by YES Bank, mainly for the renewable energy sector. IFC's contributions to rupee supranational bond issues has been of a significant scale during 2013 to 2015, compared to other supranational issuers.



IFC's onshore "**maharaja**" bond issues were smaller in size, raising approximately $100 million. Their main influence has been to introduce new product types, given their innovative structure ranging from 5- and 10-year bullet bonds to 13- and 20- year separately tradable redeemable principal parts (STRPPs), to attract different investors to India's capital markets. Again, proceeds of bonds issued under this structure will be used for infrastructure investments in India.[1] The impact on the yield curve, however, was marginal. The proceeds of the offshore and onshore bond issues represent nearly the entire IFC annual commitment for India, but are very small in scale compared to large Indian corporate bond issuers. The bond issue gives IFC an opportunity to tap the demand for quality local currency issues, but from a capital market development perspective, the amounts are small compared to the regular issuers in the corporate bond market in India.

India's Largest Corporate Bond Issuers: 2011–15 (Rupees billion)

	2011	2012	2013	2014	2015 YTD
Power Finance Corp Ltd	292	226	388	321	313
Rural Electrification Corp Ltd	163	161	227	318	166
Housing Development Finance Corp Ltd	229	257	279	253	182
LIC Housing Finance Ltd	115	115	166	225	103
Export-Import Bank of India	124	107	108	119	19
IBRD	2	2	2	21	22
IFC	-	-	30	58	21
Top ten total	3,384	1,999	1,619	1,875	1,401
All corporate Rupee bond issues	4,634	4,151	3,255	4,497	3,087

Note: Data for 2015 are as of Aug 18, 2015

Sources: IFC Treasury, IEG, Bloomberg.

[1] Infrastructure is widely defined by regulators in India and covers a spectrum of sectors including e.g.. low-income housing.

Offshore issues, when undertaken on a repeat basis and across a range of maturities, help in developing a yield curve in the currency concerned, diversifying the investor base, and bringing newcomers into the market by separating currency risk from credit risk. In India, regular offshore issues, in a range of maturities, by IFC, provided a signal of confidence in the country and established a AAA rated benchmark. Onshore issues, especially initially, have had a demonstration effect, in ironing out regulatory environment needs for future issuers, identifying necessary documentation and infrastructure in clearance and settlement arrangements. They can also "jumpstart" the domestic market in terms of tolerance for longer-dated issues, or crowd in other corporate issuers and institutional investors. However, unless issues are of a sufficient size and frequency, lasting impact on the domestic market or domestic yield curve is difficult to achieve. Such size and frequency is constrained by the size and nature of IFC's operations in the country concerned and its own risk parameters and capital charges. Such onshore issuance can be expensive and time-consuming, and this must be weighed against potential market-specific benefits. Holding local currency debt instruments in emerging market countries also poses interest rate risks owing to mismatch of duration. It may be more cost-effective for IFC to focus its efforts in few countries so that more tangible results could be achieved on a cost-effective basis. Yet such programs, too, must be careful about rating agencies' measures of IFC capital utilization, in the event of concentration.[62]

IEG's review of the experience of the other MDBs that are active in terms of local currency issues, primarily EBRD and ADB, suggests that more systematic programs (as opposed to one-off issues) and better integration of such programs within a broader mantle of both operational and advisory work, could be more effective at developing local markets (Appendix 2.5). EBRD has focused on local currency bond issues to support a broader program of local currency lending and support for the development of market indices. Since 2010 it has more formally tried to link such local capital and financial markets activities to its linked diagnostic and advisory work. Six countries were targeted in the latter, after commitments to broad-based financial reform. At ADB, in addition to supporting policy and advisory work underpinned by its role as the secretariat for the ASEAN+3 group, it also established a targeted local currency issue program for five regional currencies.

Finally, as underscored by the experience of ADB, it should also be recognized that issuance of bonds by MDBs by themselves do not help create a viable local capital market unless a country is fully committed to a broad range of reforms including security market regulations, taxation, exchange controls, market infrastructure, investor base, and market intermediaries. This function is better performed by the joint efforts of the Bank Group through policy advice and development policy operations. When most of these conditions are in place, together with investor confidence, local currency bonds by MDBs are no longer required. Meanwhile, selective interventions by Bank Group Treasury Departments can, however, add value

Bond Markets - A Summary of Findings

The Bank Group has adopted major innovative and large-scale programs for bond market development, jointly housed under the World Bank and IFC, and highly leveraged by unconventional funding and donor support. Its flagship GEMLOC program for government bonds was successful at strengthening government bond markets, notably through the low-cost and effective advisory support of its Peer Group dialogues. GEMLOC's highly original second and third pillars, the GEMX index and the PIMCO-managed fund for emerging market sovereign bonds, sought to increase the attractiveness of this asset class. Though less successful, they still served useful purposes. ESMID aimed to complement GEMLOC through its focus on corporate and project bonds, offering integrated solutions from addressing market barriers to bringing transactions to market. Its legal and regulatory agenda has been the most successful, with partial success in terms of transactions. Although the ESMID program was unusually broad in a number of regards, it is a question whether a final purposive focus on individual transactions could distract from broader initiatives and prior reforms required for the market as a whole. Arguably, a conducive environment would itself facilitate transactions. Additional Bank Group support is evident at the country level, often reinforced by programmatic lending and typically, though not invariably, underpinned where available, by FSAP guidance on design. In some countries, lack of comprehensive dialogue and sustained engagement limited effectiveness.

Both IFC and IBRD Treasuries issued local currency bonds, mostly offshore, largely for funding purposes, but also, in the case of IFC, with the development of local bond markets as one objective. IFC’s issuance of onshore bonds was linked to its business needs (local private investment), its capacity for currency risk, and its mandate, since 2013, of local capital market support. Both Treasuries have undertaken some innovative transactions. Programmatic issuance is valuable and can help build a yield curve and establish an AAA-rated benchmark within countries. Its impact in domestic markets depends on relative scale. However, positive demonstration effects have been claimed in some countries. Experience in other MDBs shows impact can be increased not only through programmatic engagement but also, as in EBRD and ADB, though more systematic integration of an issuance program with advisory work.

3. Instruments: Public and Private Equity

Highlights

- The Bank Group extended limited support to the development of **public equities markets** over the evaluation period. IFC's support to intermediaries and infrastructure has declined. World Bank support, mostly legal or regulatory in nature, was largely in the context of FSAP follow-up or demand-driven and ad hoc.
- By contrast. IFC's role in **private equity** accelerated in the 2000s, following the setting up of its dedicated funds management department, and over time it moved toward more frontier markets.
- As the private equity industry has matured in client countries, IFC's role as a fund provider has diminished, though it continues to play a catalytic role supporting first-time fund managers and, especially, in setting high environmental, social, and governance standards.
- Yet direct impact on the development of public securities markets is negligible and, most of the time, was not an objective. IPO exits are not a preferred strategy and are rare. Private equity development can at best have an indirect and long-term impact on capital market development.

Equities, or stocks and shares, which are claims on companies, constitute the second most important category of securities instruments. Although limited explicit attention has been paid to the development of public stock markets at the Bank Group of late, there are World Bank research efforts in this area, and the World Bank has provided assistance on regulation and market development in some of its interventions.[63] The Bank Group paid early attention to building equities markets, which gained importance in the context of the "equitization" of state enterprises from the former Soviet Union (Appendix 3.1). Although this agenda has receded, there is new interest in market finance for small firms. Bank Group interventions on equities markets today focus especially on regulation and development, in accordance with its public sector mandate (Chapter 6). Interventions are selective and demand-driven, and only sometimes in the context of a broader vision of market development. IEG's findings suggest that contributions, where made, appear to have been of good quality as witnessed by their usefulness to clients, even if narrow (India, Kenya). There are common themes that appear in several countries: for example, demutualization in three of the five countries. Some interventions are in progress (Morocco) despite political difficulties, and in others, the World Bank appears to have been a relatively minor player (Colombia).

More surprising, IFC's early investments in infrastructure for public stock markets also declined, with diminishing support for equitization, even as its interest in private equity increased (Appendix Tables A3.1 and A3.2). Since its beginning, IFC invested in 102 projects related to capital markets intermediaries and market infrastructure (Appendix Table A3.1). All but five precede the evaluation period. IEG's review below therefore focuses on IFC

contributions toward the development of private equity (PE), prominent in the evaluation period, and with some potential for exits to the public market.

Box 3.1 World Bank Engagement in Stock Market Development – Select Countries

Kenya and Vietnam both had technical assistance that included elements of support to public stock markets. Although support for the development of the public stock market was not a primary focus of the Bank Group in **Kenya**, there were quite a few elements in larger financial sector operations that had objectives related to the development of the public equity market. Kenya like Colombia (an ESMID country) had regional integration as an objective, together with consolidation of regional market infrastructure, such as the securities settlement and depositories. Kenya's financial sector Technical Assistance project engaged with the Capital Markets Authority (CMA) to support various relevant initiatives including risk-based supervision and demutualization of the national stock exchange. The successor World Bank analytic and advisory activities (AAA), which started in 2014—Strengthening and Deepening of Capital Markets (P151870)—had a frontal focus on capital markets, with the objective of developing a robust regulatory framework and institutional arrangements, enhancing market liquidity, strengthening investor protection, and deepening market products and services. The primary counterpart is the CMA. Proposals for adding market liquidity, for example, are detailed and include such areas as securities borrowing and lending, increased free float, market-maker roles, etc. Some positive outcomes are observed: the final announcement of demutualization of the Nairobi Stock Exchange in July 2014 and the implementation of risk-based supervision, which will have sustainable benefits.

The Bank Group did not engage in interventions in **Vietnam** during the period under review that directly aimed at developing the public stock market. Yet the general advisory project VN-Accelerating Capital Markets (088804) delivered several documents relating to stock markets, including a report on listing processes, suggestions for cross-listing, efforts to link equitization and state-owned enterprise privatization to listings, together with manuals on surveillance and a report on clearance, settlement, and depository arrangements. Many appear to be linked to the process of converting state-owned enterprises to publicly owned ones.

Morocco's Development policy loans of 2005, 2010, and 2014 each picked up a varying number of elements on securities market regulation and structure; the first of these to enhance the supervisory powers of the regulator, the second to support demutualization of the Casablanca stock exchange (not implemented due to broker resistance); and DPL 2014, which includes provisions for a new, independent market. It remains to be seen whether the political reality of vested interests will enable their achievement. .

The Bank Group had limited but useful contributions for equity market development in **India**, in the early years of the period under evaluation. Following the FSAP in 2001, the World Bank advised on issues of integrity in the securities market, including demutualization of the securities exchanges. The World Bank also worked on brokers' capitalization prudential norms, in the wake of a scam, and offered some advice on commodities trading, clearance and settlement, and derivatives. With regard to the work on demutualization, the government had already received findings from its internal committees, yet the World Bank's role was significant: it helped validate the government's thinking and helped in the selection of the right model for India. The decade since the reforms were put in place (in 2007) show that the results were sustainable. There has been little dialogue on stock market–related issues since.

Following the recent ESMID emphasis on regional capital market integration, the World Bank included support to the Integrated Latin American Market (MILA) initiative in its agenda in **Colombia**. This initiative, intended to integrate the capital markets of Chile, Colombia, Mexico, and Peru, predated the ESMID Latin America and the Caribbean program, and the Bank Group has not been an active participant. The Inter-American Development Bank and the Development Bank for Latin America (CAF) have been more involved in promoting and supporting the MILA initiative through support to the regulators of the four countries.

Source: IEG.

Encouraging Private Equity – IFC

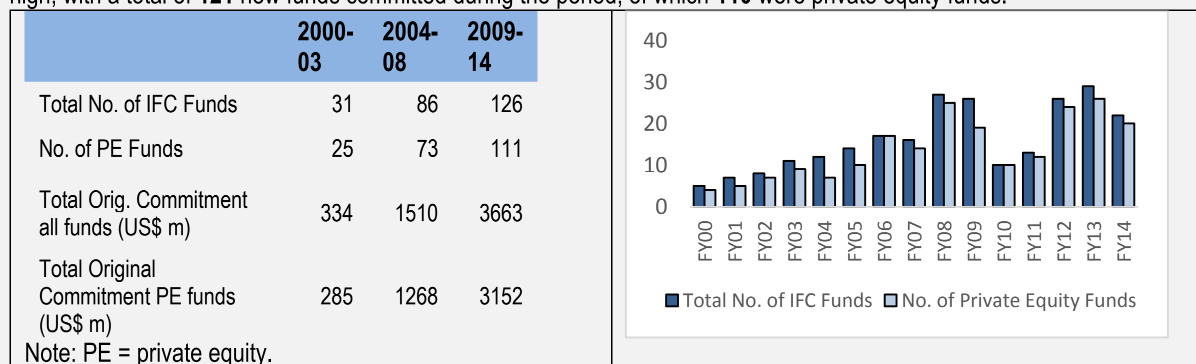
IFC gradually shifted its focus from public stock markets to private equity funds, as investors' comfort with emerging market investments increased, thus remaining at the "frontier."[64] Private equity, often for young and small enterprises, accounted for near 90 percent of new IFC funds during 2004–14.[65] Fund managers provide valuable mentoring to investee companies; who, if successful, can make initial public offerings on the public stock market.

PE Funds in IFC – An Overview

Although IFC committed a significant volume of investment to its emerging private equity funds, as the largest emerging market "fund of funds," IFC's role has been small in terms of global volume. During 2004–14, IFC represented 1 percent of global capital for emerging market private equity fund investments. Yet, given that IFC's average share in these funds was about 12 percent, the total value of these funds, in which IFC was a significant minority investor, was 8.5 times higher. IFC helped first-time managers demonstrate performance and build experience, and helped to shape the fund industry as a convenor, creating the first performance benchmark for emerging market private equity. IFC also launched the Emerging Markets Private Equity Association (EMPEA), the leading industry organization.[66] IFC may also have played a countercyclical and frontier role; its share of global commitments increased to 2 percent in 2009–10 in the wake of the crisis, later dropping back to 1 percent.

Box 3.2 IFC's Investments in Private Equity: An Overview

IFC investments in funds began in the 1970s, and grew significantly during the 1980s, with a total of $236 million committed in 34 funds (and fund management companies), of which **$206 million** was in public equity funds, which provided a means for foreign investors to buy publicly listed equities in IFC client countries. Fund investment activity surged during the 1990s when a total of **157** new funds (and fund management companies) were committed and the focus switched to private equity funds, which accounted for **90** of the new funds, and for $1.0 billion in investment, compared to $**200** million for portfolio funds. Also notable was the large number of investments in fund management companies (38), which are the legal entities representing the general partners. IFC set up a funds department in 2001 and activity surged. A total of **153** funds were committed during 2000–10, of which **127** were private equity funds, reflecting the focus of the new department. The amounts invested also increased, totaling $**3.4** billion, of which $**2.9** billion was committed in private equity funds. However the growth of new investments slowed during 2010–14, reflecting in part the volatile global economic environment, but activity remained high, with a total of **121** new funds committed during the period, of which **110** were private equity funds.



	2000-03	2004-08	2009-14
Total No. of IFC Funds	31	86	126
No. of PE Funds	25	73	111
Total Orig. Commitment all funds (US$ m)	334	1510	3663
Total Original Commitment PE funds (US$ m)	285	1268	3152

Note: PE = private equity.

Growth was accompanied by regional diversification toward newer emerging markets. In the 1980s, investments in the East Asia and the Pacific region represented more than half the number of private equity fund investments and 74 percent of IFC's committed amount. In the current decade, the East Asia and the Pacific private equity portfolio dropped to 21 percent of fund investments (by count and 22 percent by committed amount) in the current decade; Sub-Saharan Africa increased to 20 percent.

Source: IEG.

The financial performance of IFC investments in private equity funds has been mixed, which constrains them from attracting new investment. Of the funds originating during 2004–09, 44 percent had negative returns.[67] IFC's average mobilization rate was 8:1, reflecting a lower average mobilization rate with small funds (less than $100 million), which account for a large numeric share in IFC's portfolio, despite lower overheads in larger funds. An alternative metric of capital mobilization is the *extent to which domestic investors* were attracted to the fund. For smaller investments, the share of international investors has declined from 61 percent (2000–05) to 41 percent (2010–14). But this growth has not been universal, as two of the five case study countries show. Despite IFC's active role in private equity in Morocco, the industry depends on external capital, possibly because of regulatory constraints that local investors face. Similarly, the private equity market in India has experienced no growth in the share of local capital. IFC has, however, made a positive contribution to improving the *governance structure* of emerging market private equity funds. Preventing unethical fund manager behavior and aligning their incentives with the interests of investors helps attract capital. IFC's legal matrix of standards for governance are now widely accepted in client countries' private equity markets. In addition, IFC is on the advisory committee of about half its funds (120) and has a board seat in an additional 32.

Box 3.3 IFC and PE Development in Nigeria

IFC started its private equity activities in Nigeria with the CAPE Fund, which was launched in 1998 and was the first purely Nigeria-focused private equity fund. That fund was managed by ACA, a set of local fund managers with no prior experience managing a private equity fund, and was able to raise $35 million and achieved a gross internal rate of return of 46 percent. Although it is difficult to attribute the success of the private equity market in Nigeria specifically to CAPE, the success of that fund had a demonstration effect: it contributed positively to the ability of ACA to launch four follow-on funds, each progressively larger, attracting both international and local investors. It also led the way for other local and international fund managers to start private equity funds based in Nigeria. There are now nine private equity funds based in Lagos. In addition, two of the large international private equity managers have established offices in Lagos. Besides developing the private equity industry in Nigeria, the CAPE funds have impacted local capital markets through a series of successful investee company exits from the fund. Although most have been in the form of private sales, ACA has taken two investees public. The series of CAPE funds raised $646 million in funding.

Today there are more than 200 private equity funds targeting Africa, with increasingly sophisticated investment strategies, varying from generalist to more sector- or region-specific funds. Increasingly, these managers are also basing themselves in offices on the continent, and moving away from the fly-in-fly-out model that was more typical of private equity firms historically.

Sources: IEG, and "African Consumers: Driving the African Private Equity Opportunity," FMO-Fairview.

Based on 28 available IEG-approved Expended Project Supervision Report (XPSR) ratings, only 40 percent of IFC's private equity funds had an *overall development outcome rating* of mostly successful or better, though market impact and support to investee companies scored better. Looking at *project business success* (PBS), smaller funds had lower median returns—just 0.8 percent per year. Nearly half of these had negative returns and there was a wide band of variation. As fund size increased, the median return rose too, up to 7.1 percent for funds in the range $100–250 million and as high as 10.9 percent for funds in the range $250–500 million. Overall, less than a quarter of funds (and none of the smallest funds) had PBS ratings of

excellent or satisfactory. The poorer performance of the smallest funds likely reflects more risky investees and less experienced fund managers. On the other hand, the *private sector development rating* (PSD), reflecting market impact and development support to investee companies, was considerably better, at 54 percent rated high or satisfactory. However in this dimension too, smaller funds performed more weakly. The PSD rating decreases to 14 percent for the smallest funds, but increases to 80 percent for funds in the range $100–250 million and 60 percent for funds in the range $250–500 million. - XPSRs assessed IFC's role to be excellent or satisfactory in 65 percent of the funds.

A purposive IEG desk review of the Board papers of 45 private equity fund investments for the present evaluation showed that at the time of their approval about 40 percent of these investments claimed to play an important role in developing capital markets. A third pointed to an important anticipated role, and the remaining third made no explicit mention of capital markets development in approval documents. IEG also explored the extent to which the private equity funds led to the development of *local fund managers* and found that the fund manager was not locally based in 57 percent of sample projects. And *first-time funds* for IFC represented 51 percent of the total. Beyond project approval, an analysis of the Development Outcome Tracking System (DOTS) *monitoring indicators* of these projects showed that in the sample 42 percent of the projects self-report a significant impact on capital markets development. Another 31 percent of the projects reported at least some level of capital markets development. However, 16 percent of the projects had no monitoring related to capital markets development, and for another 11 projects, responses suggested that it was too early to tell.

PRIVATE EQUITY FUNDS – EVIDENCE FROM IEG COUNTRY CASE STUDIES

IFC played an initial and catalytic role as a first time investor in the private equity industry in several countries, but over time, its role in private equity has diminished. Other investors, including domestic investors, have entered the market. Even as a niche player in terms of total capital, observers remarked that often—but not always—IFC's partnerships were catalytic both in terms of attracting funds and in terms of bringing best practice to fund management.

Box 3.4 IFC and Private Equity Development in Select Countries

As a first-time investor in **Colombia,** IFC's entry was quick, timely and catalytic. After a 2007 regulatory change stimulated new growth in the domestic private equity industry, permitting pension funds to invest in private equity, IFC was involved in the first domestic fund that started after the change (Tribeca Fund 1); the first, also, to raise assets from pension funds. Later IFC became a limited partner in three other funds, including an infrastructure fund. In **Kenya**, too, IFC was on the mark, and with the opening of its Nairobi office,= was able to move the country from offshore to onshore private equity investment from 2007. IFC was also the first development financing institution and foreign investor to support a private equity fund in **Morocco** in 2000. In **Vietnam**, IFC's first investment (in the series of VEIL funds) was with Dragon Capital, a first-time manager both in terms of its corporate history and the private equity industry in Vietnam. Given this record, IFC could be viewed as making a groundbreaking investment decision. Yet, in **India**, IFC's initial entry seems to have lagged that of other investors. Between 2001 and 2004, a number of large international private equity players entered India (including Carlyle, Blackstone, Warburg Pincus, Tiger Global Management, and Barings) and allegedly made spectacular returns. IEG's entry later in the decade

missed this opportunity. However, IFC's return to the Indian private equity market around 2008 has been praised as demonstrating willingness to play a countercyclical role.

Over time, IFC's role has diminished. In **Colombia**, IFC's total investments of $35 million are small relative to the sector as a whole, where investments totaled $3.4 billion of capital raised as of February 2013, across 32 funds, and with a further 15 in the process of fundraising. In Kenya, when IFC invested US$25 million in a new US$1.1 billion Helios fund, IFC only took a 2 percent share of the company. World Bank interlocutors commented that IFC's visibility is now less than that of USAID, AfDB, and DFID, which have increased their engagement in the market. In India, from 2004 to 2015, IFC made investments in 30 private equity funds for nearly US$544 million in aggregate and in four fund management companies for US$1 million in aggregate. Yet in comparison, from 2005 to 2014, venture capital and private equity investors invested US$107.2 billion in India. As of end 2014, there were 436 active funds in India, including about 220 new funds. Therefore IFC today is a niche player.

IFC's partnerships were often catalytic, attracting funds and raising the standards of fund management. Observers in **India** remarked that IFC has often played the role of an anchor investor in several of the funds in which it has invested. In **Kenya**, its investment in the Kibo II fund was viewed as a catalytic stamp of approval, given the perceived risk of investing in Africa funds, and IFC's brand name as the largest investor in emerging markets private equity. IFC's involvement with Tribeca in **Colombia** contributed both to its ability to raise assets from domestic pension funds and to use international best practices in its documentation and legal structure. However, IFC's investment in Ashmore, Colombia, was not viewed as transformative, as other multilateral donors (CAF) were concurrently investing as were the big pension funds. IFC's investment with VI Group in **Vietnam**, in 2008, for VI Fund I, was also an investment with a first-time fund management team. IEG's mission findings suggest that IFC's involvement was catalytic in terms of helping VI Group close its first offering. And almost all nine fund managers that IEG met with in **India** were first-time fund managers, and all except one were local. IFC's contributions to improved corporate governance standards and better environmental and social oversight were often noted.

Source: IEG.

Contributions to securities market development was at best an ancillary objective, sometimes alluded to at the inception but rarely followed up in practice. It is hard to trace impact from private equity to capital markets more broadly. Core objectives mentioned were more focused on access to finance for growing firms, advising such firms, and developing the private equity industry itself. While initial public offerings (IPOs) may be a preferred strategy, they are not seen as a likely exit mechanism because they are not available in most markets. Private sales are the norm. IFC itself claims that it sees its role as a capital provider in developing countries, noting that the lack of risk capital hinders economic growth and thwarts entrepreneurship. At best the goal of its private equity business was to help companies grow, develop better corporate governance, and create jobs—aims that could be seen as indirectly related to capital market development.

Private Equity – A Summary of Findings

Private equity has grown significantly in IFC client countries since the turn of the millennium and IFC has often played a pioneering role as a provider of risk capital, willing to engage with first-time fund managers, and introducing structural, governance, social, and environmental standards. Its prominent role in frontier countries, with first-time managers, and smaller firms may have come at the expense of some tradeoff in terms of returns. As the private equity industry matured, IFC receded as a fund provider. It retains an important catalytic role, though this does not transfer to a direct impact on the development of public securities markets. Private equity has a negligible role in this regard, with, at best, an indirect and long-term impact on capital market development. IPO exits are not available in many markets and are rare. Yet,

private equity venture capital are likely to be the most promising vehicles for supporting new and small firms, and given this objective, IFC's moves were in the right direction. Going forward, given IFC's record of adapting its lines of business as markets change, it could explore moves beyond both public stock markets and private equity, perhaps toward exploring new and innovative financing methods for small businesses that lie in "Fintech," B2B and crowdfunding initiatives.

4. Instruments: Mortgage-Backed Securities and Market-Based Housing Finance

Highlights

- IFC has offered occasional transaction support for the development of **mortgage-backed securities**, and in a few cases, notably Colombia, and Russia, where country conditions permitted, has strongly supported the development of secondary market mortgage instruments.
- In a subset of countries, such as Brazil, Egypt, Ghana, Nigeria, Tanzania, and Brazil, the Bank Group supported the use of **mortgage liquidity facilities**, which can be considered a first step toward the use of "capital market" instruments, at a primary market stage, as the intermediary institution funds itself on the market. The Bank Group has also been attempting the introduction of **covered bonds** (including, for example, Brazil, India, Morocco).
- Yet in most of these countries, markets were not ready for this. Market conditions limited the extent to which countries could set up such capital market–related mortgage finance instruments.
- Given the level of development of client countries' economies, Bank Group support to housing finance typically focused primarily on banks.
- The Bank Group was often able to make a significant upstream contribution, especially in the form of supporting the development of an appropriate legal and regulatory framework for such instruments, as well as detailed advisory work on design, which could ultimately be useful.

A third major category of securities instruments are asset-backed securities **(ABS);** pooled bundles of claims on underlying assets. Mortgage-backed securities (MBS) for housing finance represent claims on underlying mortgages; ABS can be claims on other underlying financial receivables.[68] The Bank Group, especially IFC, supported the phased development of asset-backed and MBS in many countries, especially in the context of housing finance, which forms the focus of this section.

Box 4.1 IFC's Securitization Transactions

IFC made about 13 identifiable transactions involving securitization over the review period. Banks and microfinance institutions accounted for six; secondary mortgage institutions accounted for some of the remainder, notably in Russia. IFC played a role in the start of the asset-backed securities market in that country, with the development of an international market for securities tied to Russian mortgages and auto loans. A large number of asset-backed securities transactions in Mexico, totaling $103 million, involved local currency issues of debt instruments by small and medium enterprises which were purchased by Mexican institutional investors. Another innovative set of projects in the region were in El Salvador, where securitization of remittances through diversified payment receipts totaled $50 million. In Chile, the securitization by an agribusiness company of receivables from farmers was done in local currency. And in Turkey, a country where issuances grew after 2008, they took the form of diversified payment receipts, securitizing expected flows of remittances to investors. IFC played an important role in this market when market liquidity constraints during the crisis made investors reluctant to continue investing.

Source: IEG.

Developing Market-Based Finance for Housing

IEG recognizes that the development of market-based financing instruments was rarely a focus of housing interventions. Second, IEG recognizes that although mortgage securitization per se may have been rare, the Bank Group may have supported countries in their initial steps toward the use of market-based financing. Upstream interventions that could indirectly help support a sound housing finance market also include the establishment of a sound legal and regulatory structure. More directly, and closer to the use of capital markets, would be moves toward the establishment of mortgage liquidity facilities, that intermediate between primary mortgage companies and bond markets, or instruments such as covered bonds or mortgage-backed bonds. In some instances, the Bank Group was directly involved in the development of mortgage-backed securities. IEG's review below covers 112 projects in 23 countries (Appendix 4.1). It clusters projects by country to permit the tracing of interventions and outcomes over time, against the evolution of country and sector conditions. It also reviews pertinent interventions preceding the formal review period. Country-level interventions are discussed in three groups, based on their levels of success with the use of market-based instruments: those where the Bank Group contributed specifically to the development of securitization and secondary market development; those where partial steps were taken in the direction of market –based housing finance, notably through mortgage liquidity facilities, and those where specific new capital market instrument–related products have been introduced, such as covered bonds. Each case demonstrates the need for long-term engagement, and interlinkages between interventions, which make it necessary to review the entire sequence to achieve the right perspective.

Box 4.2 Housing Finance and Capital Market Development

Capital markets can allow housing finance companies to securitize mortgages that they originate, expanding the investor base and potentially lowering the cost and increasing the ease of funding. As early as 1998, IFC, IBRD and ADB held a joint workshop on this topic (Watanabe 1998). The use of mortgage-backed securities in emerging markets is summarized in Chiquier, Hassler and Lea (2004), who also provide case studies of their use in several emerging markets. Globalization and its profound implications for housing finance are described in BIS (2006). Zanforlin and Espinosa (2008) track and highlight the key legislative and institutional reforms leading to the development of primary and secondary mortgage markets in Mexico, including the use of mortgage-backed securities. Chiquier and Lee (2009) provide a complete overview of housing finance in emerging markets, including a discussion of mortgage securities. Hassler and Walley (2012) review the experience with housing liquidity facilities, which intermediate between primary mortgage companies and bond markets and have been effective in emerging markets where mortgage-backed securities are not well developed. This rich technical experience and research is reflected in a large and diverse portfolio of Bank Group lending, investments, and advisory work in this area.

Bank Group housing finance interventions could be *upstream* (building a suitable legal framework), or downstream, depending on country circumstances. Upstream support would include broad-based advisory support for mortgage security related instruments or institutions. The Bank Group could support the development of an enabling environment for housing finance overall (e.g., improving credit underwriting, regulating originators, improving disclosure, sound home appraisal, insurance products related to mortgage lending, provisions for mortgage insurance). These could involve the drafting of laws

and regulations, such as better disclosure standards for risk mitigation, risk-based capital requirements, or laws establishing the separation (bankruptcy remoteness) of an special purpose vehicle (SPV). Often there can be beneficial tax treatment to mortgage bonds, for example,tax exemption on interest payments; government payment guarantees to securitized low-income home loans etc.

In a pre-capital market, traditional commercial bank–financed phase, Bank Group interventions could also be focused on institutional support, initially supporting *deposit-funded mortgage institutions* (commercial banks, savings and loans, building societies, contractual savings schemes) (that is, non-capital market institutions); coupled with providing mortgage loans.

More sophisticated, and more relevant for capital markets, would be Bank Group support for *non-deposit taking specialized mortgage institutions (mortgage banks)* that fund themselves with securities they issue (mortgage bonds or covered bonds); or the development of such instruments. Mortgage bonds are issuer obligations against a mortgage collateral pool, hence they stay on the issuers' balance sheets, but can get favorable terms compared to general obligation bonds. Investors have a prior claim against the collateral in the event of issuer bankruptcy. Liquidity facilities make collateralized loans to primary market lenders funded through bond issuance in domestic capital markets. They can also purchase loans with full recourse. Sometimes some government presence gives an implicit guarantee (Cagamas Malaysia or Jordan MRC—some central bank ownership). Some liquidity facilities fail to develop, leading on some occasions to an unfortunate move toward more complex structures.

Support for the development of a *secondary mortgage market* could include sales or servicing of mortgage securities backed by specific pools of mortgages, to conduits or SPVs, that transfer the risks and ownership of mortgage loans to a third party. They may be originated by a variety of lenders. They may be sold to specialized institutions called conduits, or through special SPVs, that buy mortgage-backed securities. They could also include pass-throughs (undivided security interests) or pay-throughs, which are structured finance instruments synchronized from the security. Pass-throughs or pay-throughs are mortgage-backed securities where funds are collected by banks or another servicing intermediary who collects the monthly payments from issuers, and, after deducting a fee, remits them through to the holders of the pass-through security. Depending on the details of their structures, these are known as "pass-through certificates" or "pay-through securities." A limited number of Bank Group interventions (especially at IFC) focused on supporting the development and use of structured finance mortgage instruments. These could offer a range of credit enhancements (public, private, by international financial institutions) and take different forms: partial mortgage insurance, security payment guarantees, "top loss" or first-loss mortgage insurance (subordination or overcollateralization).

Source: IEG.

SECONDARY MARKETS: SECURITIZATION, MORTGAGE INSURANCE, AND COVERED BONDS

Colombia presents perhaps the best case of IFC support for the development of mortgage securitization, and its most *relevant* interventions were for the formation and growth of Titularizadora Colombiana (TC), the Colombian Home Mortgage Corporation (CHMC), the first and only specialized securitization company in Colombia. Well-capitalized and successful, it is a large-scale capital market player that issues about a quarter of all private debt in the country. TC has enabled the recognition and acceptance of the legal and regulatory framework for a healthy mortgage market: standardized underwriting practices, strict qualification for mortgages it purchases, clear accounting rules for banks and investors, and defined foreclosure processes. It serves a network of commercial banks and other depository institutions funding mortgage loans.

IFC's contributions to the development of housing finance securities and capital market development in Colombia spanned other associated institutions, notably, Davivienda, the Grupo Bolivar, and Bancolombia. IFC's initial US$3 million investment in Davivienda in 1997 had mortgage securitization development as a clear objective.[69] Davivienda had a significant

stake in Titularizadora Colombiana (CHMC), in which IFC made its follow-up investment in 2001. Later, IFC's 2007 investment in Banco Davivienda contributed to strengthening its capital base and enabled Davivienda's IPO in 2010 on the local stock exchange. Significant because it was the first IPO in the local Colombian market after the financial crisis of 2008, it was 12 times oversubscribed. The *relevance of the design* of IFC's interventions is evident in its broad-based span over all relevant market participants, its building of ancillary regulations together with instruments, and its long-term and patient partnership. Most of all, IFC went into a market which was ready, in terms of prudent macroeconomic management, a well-developed public bond market, and sound financial regulatory infrastructure.

In term of *results,* the sustained development of CHMC, the huge increase in issuance, and the clearly defined overall framework for securitization are testimony to the very positive outcomes of IFC's interventions. Moreover, the 2012 FSAP report indicated that "housing finance is at present developing on a broadly sound framework of prudential regulation and public incentives, and that securitization practices are sound." The Development Outcome Tracking System (DOTS) report on the project reported that the project was successful on a number of fronts, including rates of return and numbers of mortgage-backed securities issued. It also cited the overall increased standardization of mortgage lending and increased funding for origination of new loans. Today securitized mortgages represent a quarter of the country's mortgage portfolio, the highest in Latin America. Market participants have validated the high impact of this IFC investment operation.

Box 4.3 IFC and Mortgage Securitization in Colombia

In 2001, IFC provided support to Colombia's main mortgage banks for the creation of CHMC – Titularizadora Colombiana. IFC's initial investment was US$140 million, including: (i) an equity investment of up to US$40 million, for up to 20 percent of the equity capital of CHMC; and (ii) a local currency guarantee facility (LCGF) up to US$100 million, with a maturity of up to 15 years, to support CHMC's funding and securitization programs during its first years of operation. Its later investment of US$35 million supported the issue of a subordinated bond, which qualified for Tier II capital under Colombian legislation. IFC provided equity of US$10 million and a local currency guarantee of up to US$25 million to this issue in order to extend the maturity of the bonds and facilitate the first issue of subordinated debt by a Colombian financial institution. Another investment in 2004 helped structure a guarantee for the issuance of a subordinated bond, and in 2008 IFC provided -evel technical assistance to further help develop the secondary market for CHMC's mortgage-backed securities. In 2014, IFC sold its equity stake in TC on favorable terms. It still participates in the operations of TC by providing a partial guarantee for some of its mortgage backed security tranches.

IFC's 2007 investment in Banco Davivienda (through IFC's Capitalization Fund, managed by IFC Asset Management Company) was a combination of direct equity and a subordinated loan and did not have any capital markets features. However its contribution to the strengthening of Banco Davivienda's capital base enabled its 2010 IPO. Control of the bank did not change, though, because Grupo Bolivar retained its majority control. Further, IFC didn't exit its ownership position in this transaction because management wanted to retain IFC's backing. IFC later exited through a put option to existing owners.

Source: IEG.

The Bank Group's 26 interventions in Mexico's housing sector during the review period spanned a broad spectrum of areas related to housing finance, and included, inter alia, support for MBS. World Bank interventions focused primarily on low-income housing support, urban land markets and property registries, subsidy design and implementation. They also included support for the restructuring of a housing fund *Fondo de Operacion y Financiamiento Bancario a la Vivienda* (FOVI).[70] The government undertook to transform FOVI into a second-tier bank and mortgage liquidity facility, *Sociedad Hipotecaria Federal* (SHF), the Federal Mortgage Corporation, which became the primary source of support for the development of MBS until 2008. The World Bank also supported the development of the framework for creating a market for covered bonds.

Mortgage refinancing and securitization, which began under FOVI, expanded under the provision of housing credit through SHF refinancing of mortgage lending by non-bank financial intermediaries called *Sofoles*, and was also supported by two subsequent World Bank development policy loans.[71] Sofoles also packaged loans into MBS sold on local financial markets, where private pension funds were the main buyers. Well-structured packages were launched, and securitization mobilized US$4.3 billion in financing from 2004 to 2008, equivalent to nearly all of SHF/Sofol mortgage funding over that period. The intervention was timely;the country was emerging from the Tequila crisis in which the banks had left the mortgage market and the Sofoles became the main source of housing finance.

IFC's strategy during the evaluation period was focused squarely on supporting the Sofoles (14 of their 16 projects). Partly owing to portfolio issues, poor regulation, and the effects of the U.S. subprime and global crises, these institutions largely collapsed after 2008, including several IFC clients.[72] Securitization of mortgage loans did not represent an important share of the private securities market (18.6 percent) in June 2008. It also represented a small portion of the outstanding mortgage credit portfolio (7.4 percent in June 2008); therefore the MBS market in Mexico remains small-scale.

Although IFC was unable to predict the global financial crisis and the ultimate closing of a number of institutions, its involvement had a positive impact in the early 2000s on the legal and regulatory framework and development of the securitization markets for these institutions. Nevertheless it can be questioned whether such a large concentration and continuation of this strategy until 2010 was wise. Following the 2008–09 global financial crisis, demand for these instruments in Mexico has declined, as has private penetration of the country's housing finance market. Securitization appears no longer to be an option, because institutional investors are shying away from these products. However, the acceptance of covered bonds looks more promising and may signal the way forward for the Bank Group.

IFC's interventions for mortgage securitization in Russia also illustrate *strongly relevant design* in terms of sustained partnership through all stages of the development of housing finance, broad

scope, and a combination of technical assistance and investment. IFC helped strengthen primary mortgage practices which later culminated in the issuance of ABS on the secondary market. IFC played a role in the start of the ABS market in that country, with the development of an international market for securities tied to Russian mortgages as well as auto loans. The three IFC technical assistance interventions prepared the way for IFC's investment project that supported the first mortgage-backed securitization transaction in Russia. Admittedly these were U.S. dollar-denominated securitizations based on an offshore entity.[73] Yet it signaled IFC's support to securitization at a time when the market was in early stages of development and was followed by a steady series of subsequent securitizations, including onshore securitizations, which suggest sustained impact.

In India, although conventional securitization is limited by regulatory issues, IFC has provided *innovatively designed support* toward the development of MBS recognized in the local market, with *positive though somewhat limited outcomes*, though there could have been better engagement on the overall framework for securitization. Practitioners note a lack of legal clarity, unclear accounting treatment, and high incidence of stamp duties making transactions unviable, coupled with a lack of understanding of the instrument amongst investors, originators, and, until recently, even rating agencies. The Bank Group has had little headway in discussion of these issues with the regulator, the central bank. IFC provided creative support for new products adapted to the market context for the present securitization model, through the offer of credit enhancements required on the securitizations, with mortgage guarantees, primarily through the India Mortgage Guarantee Corporation (IMGC), beginning in 2003 and closing in 2012.[74] IMGC has recently concluded securitization transactions that include the mortgage guarantee with four different lenders, starting with the Dewan Housing Finance Corporation (DHFL) in 2013, (an IFC Investment Company). IFC also provided loan support to DHFL, which leveraged these funds to itself became active on the domestic capital market.

Although outside the review period, IFC's most significant support to market-based housing finance in India was to the Housing Development Finance Corporation (HDFC), now a substantial issuer of corporate bonds on local and external markets. HDFC has been the chief promoter of a competitive housing sector in India, and the initiator of the shift from directed credit to market-oriented housing finance. It has since entered into joint ventures and supported housing finance companies in several emerging markets. IFC is also helping to explore the covered bond option for India, with the PNB Housing Finance Company, together with the National Housing Bank. PNB Housing Finance is trying to launch the first issuance of covered bonds in India, and trying to clarify the conditions necessary for a "true sale" for the structure and the tax implications of the product. IFC has helped PNB Housing Finance by putting them in touch with similar clients dealing with covered bonds, as in Turkey, and introducing them to the rating agency, Moody's, who have rated 70 percent of the covered bonds in Europe.

IFC had less obvious influence in Brazil, a market with established securitization instruments, despite early support for the development of its CRIs (mortgage-backed securities). Over the review period, however, IFC's engagement with the securitization process in Brazil diminished. IFC continued its support of the Companhia Brasileira de Securitização (Cibrasec) with a rights issue in 2005, and attempted two further rights issues in 2012 and 2013, but the latter were cancelled for regulatory reasons. Cibrasec is still an ongoing enterprise and playing a key role in the secondary market for mortgages in Brazil. IFC also disbursed equity commitments of US$1.5 million to another securitization company, Rio Bravo Securizadora (RBSec) in 2005. In 2008, IFC's investment in RBSec was swapped for an investment in RB Realty Capital, a successor organization. In November 2008, in the midst of the crisis, IFC exercised its put against the sponsor and suffered a negative internal rate of return. A subsequent commitment, for a credit-linked guarantee with RBSec, was cancelled in 2015 because the loan from the local lender never closed.[75] Overall, the impact of IFC on the growth of the securitization market in Brazil during the period under review has been small.

More recently, the World Bank, with funding from FIRST, has launched a project to introduce mortgage-covered bonds (MCB) in Brazil, which has had good traction. This project is expected to complement the existing securitization framework supported by IFC over the past 10 years. Workshops held to discuss its substantial report drew a wide audience, including federal financial market stakeholders, major private lenders, and the Brazilian legal/financial community. A covered bond framework was outlined by Brazil in October 2014, and then passed by parliament, and authorities are now drafting secondary regulations. It is likely that the World Bank will be involved in the further development of this product in Brazil.

In Morocco, the World Bank provided support for securitization through its development policy loan of 2010, which included as a condition the enactment of a decree implementing amendments to securitization laws that would expand the range of securitizable assets. Implementation support would be provided by CIH, the state-owned housing finance company, which has been active in securitizing mortgages that it originates through a company called Maghreb Titrisation. This was paralleled by a FIRST project (2011) that included activities to produce draft regulations on securitization. The FIRST project included support for development of draft laws and regulations for the use of these instruments. In 2011 the World Bank provided FIRST-funded technical assistance to promote the sound development of a legal and regulatory framework for the issuance of covered bonds in Morocco. This product was deemed to be useful in helping Moroccan banks manage liquidity and interest rate risk related to their expanding mortgage portfolios, and help domestic institutional investors diversity their assets with a new class of low-risk private bond markets. A draft law was provided to the General Secretariat of the Government in March 2013, and workshops were held to strengthen the stakeholders' understanding. There is anticipated to be further work by the World Bank in this area in the future.

PRIMARY MARKET INSTRUMENTS: LIQUIDITY FACILITIES[76]

In both Nigeria and Ghana, Bank Group country strategies mention the need to support housing finance, and each had a preceding FSAP where prior diagnostic engagement in housing finance and capital markets were evident. Macroeconomic conditions in Nigeria, however, were volatile throughout, and though initially stable, increased in volatility in Ghana, making it relatively difficult to introduce long-dated housing finance instruments. In both markets, the World Bank helped set up a mortgage liquidity facility: the Nigerian Mortgage Refinance Corporation (NMRC), and Ghana Home Loans (GHL). It is too early to determine outcomes in Nigeria, because NMRC issued its first corporate bond on October 1, 2015. Although reflecting some good practice from interventions in other countries, some design elements, such as the government guarantee, were points of dispute between the World Bank and IFC, because they would have preferred to keep the government at "arm's length." The World Bank's set-up of Ghana Home Loans in 2006, a liquidity facility intended to be financed by the issue of corporate bonds, seems in retrospect to be premature. Market conditions were arguably not ripe. There was only one outstanding local currency corporate bond, and no benchmark for the pricing of corporate bonds; and institutional investors were scarce. Thus GHL was not able to develop market-based funding and its resources have been provided largely by external donors and shareholders.[77]

Between 2004 and 2010, four of the eight housing finance projects in Egypt pertained to the establishment of the Egyptian Mortgage Refinance Company (EMRC); a liquidity facility for both banks and nonbank lenders. Three of the interventions were by IFC and one by the World Bank.[78] EMRC funding was, however, very dependent on a World Bank loan provided in 2007, which closed in 2011. EMRC achieved some initial goals, reflected in an increase of primary mortgage loans, together with the establishment of sound operational processes and significant refinancing of subsidized mortgage loans for low-income households. However, EMRC was not able to perform its principal function as the centralized issuer of corporate bonds to mobilize long-term funding from domestic capital markets. Apart from a deterioration of macroeconomic conditions and a sharp hike in interest rates, new government programs undermine this objective: a Central Bank of Egypt Mortgage Initiative (CBEMI) which is currently providing subsidized mortgage funds to banks and is in direct competition with EMRC. A recent IEG PPAR of the project (June 2015) faults the World Bank for introducing the mortgage liquidity facility, when supporting capital market conditions were not met, and downgrades project performance.[79]

The World Bank's two lending projects in Tanzania were also related to setting up a mortgage refinance company, the Tanzania Mortgage Refinance Company (TMRC). The Mortgage Finance Act of 2008, developed with the support of the World Bank, led to the establishment of the TMRC in early 2010.[80] TMRC is a secondary or wholesale mortgage liquidity facility created as a private sector institution owned by the banks with the sole purpose of supporting banks to

do mortgage lending by refinancing their mortgage portfolios. Although mortgage loans' average duration has increased since the creation of the TMRC, from five to 10 years to 15 to 20 years, because the market conditions and lack of portfolio, TMRC has not issued any corporate bonds up to this time; however, it is still early to draw conclusions.

Housing Finance and Capital Markets - A Summary of Findings

Given the level of development of client countries' economies, Bank Group support to housing finance focused primarily on banks. In a subset of countries, such as Nigeria, Ghana, Tanzania and Egypt, the Bank Group supported the use of mortgage liquidity facilities, which issue their own bonds to provide financing to banks, and in Brazil, Morocco, and India, is supporting the introduction of covered bonds. These can be considered a first step toward the use of market-based financing instruments. In a few countries, including, notably, Colombia, Russia, Brazil, and, to some extent, in India, the Bank Group also supported the development of secondary market mortgage instruments and MBS.

Overall, the Bank Group, and especially IFC, were very influential, and indeed pivotal, in developing the MBS model in a handful of countries, notably Colombia and Russia, where its interventions were well-designed, mutually reinforcing, progressive, and sustained. Its contributions in India have been innovative and noteworthy in a difficult environment, but there has been limited engagement on core underlying obstacles. IFC's recent investments to support securitization in Brazil made limited headway. Meanwhile the Bank Group has been increasingly involved, in a number of countries, in introducing other new housing finance capital market–related instruments, notably covered bonds, with some success.[81] In both the areas of mortgage liquidity facilities and covered bonds, there is a case for distilling cross-country lessons, for application with future clients.

In several Bank Group client countries (examples are Peru, Tanzania, Egypt, Ghana) markets were not ready for the introduction of market-based mortgage finance instruments. The reasons typically included a poor macroeconomic environment (for example, Ghana); or a premature model of intervention, where existing market infrastructure could not support such instruments (for example, Peru, Tanzania, Egypt); or lack of government or sponsor commitment (for example, Egypt). Yet the Bank Group was able to make significant upstream contributions by supporting the development of an appropriate legal and regulatory framework for such instruments, as well as providing detailed advisory work on design, which could ultimately be useful. Securitization, or secondary-market instruments, are not the first choice for developing capital markets in many Bank Group client countries. Liquidity facilities and products such as covered bonds may be more efficient and viable options; however, these too need to be carefully screened for market readiness and the macroeconomic environment and the financial sector and institutional setting.

5. Investors: Insurance and Pension Funds

Highlights

- In principle, institutional investors' funds can be a powerful vehicle for investment in capital markets instruments, and Bank Group strategies on insurance and pensions strongly affirm support for this role.
- Yet, this role has not been a strong element of Bank Group operations in the areas of insurance and pensions. Most interventions have a product focus or risk management focus, and fund management or asset allocation have not been elements of their design.
- FSAPs have provided a significant vehicle of indirect and upstream support for strengthening the regulatory environment, but the inclusion of institutional investors in FSAPs has markedly declined.
- Pensions interventions focus, understandably, on issues of social coverage and fiscal sustainability, possibly reflecting the dominance of public pensions in many client countries. Strengthened regulation and development have provided indirect upstream support.
- A core focus in insurance interventions has been on the design and rollout of new insurance products; regulatory issues related to the rollout of IAIS II also received considerable attention.
- Downstream attention to asset management or investment has received negligible attention.
- New frameworks of risk-based supervision imply that assets (investments) and liabilities must be reviewed together by supervisors, and may herald greater attention to asset management.
- IFC advisory services were also product development–focused, usually for specific micro insurance products, highlighting expansion of access.
- IFC investments provided direct support to insurance companies, and thus, upstream support for capital markets through leveraged fund accumulation. They could in principle also support asset management at these companies, though there is limited information on whether this occurred.
- Evidence from IEG field visits suggests that in many, though not all, countries, much valuable diagnostic work undertaken through the FSAP program was rarely operationalized, though exceptions exist.
- There is new impetus in a few countries, especially in the wake of the ESMID program, to refocus on the accumulation and investment aspects of contractual savings, for infrastructure finance.
- There is scope for further World Bank support toward translating accumulated assets into securities as well as other investments. This should be a core element of an integrated capital market development agenda.

Moving from the issuer side of securities instruments, to the demand side of capital markets, some of the largest *investors* in securities instruments are institutions such as insurance and pension funds. These institutions accumulate large sums of money, through insurance premia (especially life insurance) or pension deposits. Such investors need to hold long-dated assets such as capital markets instruments to match their long-term payouts.[82] The Bank Group is active in the areas of both insurance and pensions.[83] IEG's review focuses on identifying and assessing interventions that may have influenced the development of capital markets through contributions to the regulatory and legal environment; support for growth of investible funds;

and investment allocations including improvements of the returns on investment. While institutional investors have long shaped capital markets in advanced countries, their role has been more modest in many developing markets, owing to a range of factors: the shortage of tradable, liquid securities on the supply side, restrictive prevailing regulations, and a prudential environment not conducive to the development of such sectors.[84] The design of accumulation also matters. Pooled multi-pillar pension systems, which include employer and employee contributions and draw them into a common fund provide larger volumes of accumulation than individual accounts.[85] Regulations also affect investment, sometimes prohibiting or setting quantitative limits on investments in certain asset classes, including securities or real estate; or they mandate certain levels of holdings in government securities, with a view to safeguarding investors, but thereby also reducing yields.

The *primary* objective of operational interventions in these areas remains, not surprisingly, to build strong insurance or pensions sectors. Thus insurance interventions tended to focus, appropriately, on support to regulators or to institutions in the market that could help offer safe and effective coverage in a range of economic activities.[86] Pension interventions have as their first goal the provision of old age security in a sound and affordable framework. For largely public pillar and unfunded pensions, fiscal sustainability has been a focus. Asset management, if included, was an ancillary activity, to raise returns rather than contribute to capital market development. IEG's review looks first at the *relevance* of Bank Group upstream interventions through a better regulatory and prudential environment or better designed accumulation; as well as downstream support to better asset management and better managed investment in capital market securities. Among relevant interventions, IEG reviews *effectiveness*, subject to the caveats that support for capital market development was at best a secondary or even implicit objective; the small number of interventions with a significant focus in this area, and sometimes limited information, especially, evaluative material.

Box 5.1 Pensions and Insurance: Knowledge Products on Linkages with Capital Markets

The World Bank has long been an advocate of the need for multi-pillar pension systems, which include employer- and employee-funded pillars that can provide accumulations for capital markets investment, as its flagship reports demonstrate (James (1994), and Palacios (1994). Vittas (1996) and Vittas (1999), described links between pension system reform and capital market development. Yermo (2004) argued that capital market development in Latin America had been driven largely by pension regulation.Rudolph and Rocha (2007) assessed links between the Colombian funded pension system and its capital market, and Rudolph and Rocha (2007) conducted a similar analysis for Poland. The World Bank's stress on second pillars during the late 1990s and 2000s was motivated not only toward diversifying pension systems but also to fast-track simultaneous pension fund development and capital market development. Holzman (2009) focused on pension systems in Central and Eastern Europe, noting challenges owing to a combination of an ageing population and the still relatively undeveloped capital markets.

But the development of second pillars was a mixed story. Some early reforms were reversed, and where preserved, despite rapid pension asset growth, asset composition was sometimes disappointing, with short investment horizons and limited contributions to capital market development, as found by Raddatz and Schmukler (2008) who looked closely at the investment portfolios of pension fund managers in Chile so as to understand how the development of those funds affected the capital markets; they found that fund managers were not investing as expected and that there was room for additional reform

to change manager incentives to promote capital market development (Appendix 5.1). World Bank activities related to pension systems are documented and summarized by Dorfman and Palacios (2012).

Today, difficulties faced by second pillar schemes are being re-examined, with an emphasis on new, more corporate-based third pillars. Hinz (2010) examined pension fund financial allocations and returns in detail, expanding the sample to improve understanding of defined-contribution pension systems. Stewart (2014) pursued this theme by looking at alternative approaches that could adjust incentives for pension fund managers toward longer-dated investments that could help meeet retiree needs.

The insurance industry can also play an important role in the development of capital markets, especially life insurance, which accumulates large pools of capital that need to be invested for long periods of time. But insurance can play other roles as well. For example, Pollner (1999) explained the potential role of multilateral development banks in the development of pooled insurance coverage supported by liquidity and credit enhancements, as well as hazard-indexed bonds that would allow risk to be securitized. Lester (2014) provided an overview of World Bank insurance interventions for growth and poverty reduction; however, there is no specific discussion of capital market linkages.

Source: IEG.

The Bank Group and Institutional Investors: Contributions to Capital Market Development

FSAPS: DIAGNOSTICS AND CORE PRINCIPLES ASSESSMENTS

Apart from Bank Group operational contributions, the World Bank undertook diagnostic and advisory reviews of pensions and insurance as part of the FSAP process (Table 5.1). Such country-level assessments were highly *relevant*, because they mapped out regulatory and institutional needs and identified risks. Over the review period FSAPs included around 36 technical notes and annexes on pensions, and 42 in insurance. There were an additional 10 Core Principles assessments on insurance standards. However, over time, both pensions and insurance FSAP annexes declined. In the eight years from 2001 to 2007 there were 25 FSAP annexes on pensions and 27 in insurance, compared to only 11 and 15 respectively in the following eight years from 2008 to 2015. There was an even more marked decline in IAIS assessments, from nine to only one.

Table 5.1 FSAP Specialized Reviews of Pensions and Insurance: 2001–15

	Pensions			Insurance			
	Total no of reports	Select Issues	Tech. Notes	Total no of reports	Select Issues	Technical Notes	Reviews of Insurance Standards
2001–03	11	9	2	10	9	1	7
2004–07	14	2	12	17	1	16	2
2008–10	9	0	9	10	0	10	0
2011–14	2	0	2	5	0	5	1
2015	0	0	0	0	0	0	0
Total 2001–15	***36***	***11***	***25***	***42***	***10***	***32***	***10***

Source: IEG, FSAP program database.
Note: IAIS=International Association of Insurance Supervisors.

Yet, the IEG FSAP evaluation (2006) stated that only a third of detailed FSAP reviews had a fully integrated discussion of insurance issues and capital markets and investment. IEG finds that this remains partially true perhaps because of structural divisions between topic areas. A number of FSAPs did discuss the need to expand the insurance and pension sectors, and to diversify asset holdings (which would help develop capital markets), but did not integrate this with a discussion of available investment instruments.

OPERATIONAL SUPPORT FOR THE PENSIONS SECTOR

By far the largest number of World Bank pensions interventions reviewed (32 out of 40) were on the advisory side (NLTA and AAA - see Table 5.2) Apart from the financial sector area, there have also been significant contributions to World Bank pensions work from the social protection and human development networks. A large segment of pensions are usually under public management with the government (Pillar 1); several pension projects are thus also in the macroeconomic thematic area.[87] Projects were clustered in the Europe and Central Asia and Latin America and the Caribbean regions. One likely reason for the preponderance of Latin American countries is that these countries had more diversified pension systems, with larger private Pillar 2 and Pillar 3 components.[88] A few of the interventions were first-generation reviews of the pension system, describing the main features of a country's pension system, pointing out issues and suggesting options for reforms.

About half, especially in Europe and Central Asia, discussed existing multi-pillar systems, or made recommendations for the extension of the second and third pillars, thus directly relevant for asset accumulation for capital markets investments. These included, in Europe and Central Asia, two multicountry studies as well as Albania, the Caucasus, Russia, and Kazakhstan. In Latin America, these included Brazil and Colombia, together with a number of smaller countries (Costa Rica, Guyana, Trinidad and Tobago, and a regional Latin America and the Caribbean study). Recommendations were also made for the initiation of multi-pillar systems in

Mali and Niger, where there was no reference to an existing private or voluntary pillar. A majority were referred to as priority tasks in the Country Assistance Strategy (CAS) or Financial Sector Assessment Program (FSAP). Most were demand-driven -- initiated at the request of the borrower's ministry of finance or pension supervisor.

Table 5.2 IEG's Portfolio Review of World Bank Pensions Interventions – Capital Markets (2004–15)

	IFC AS	IFC Inv.	WB AAA	WB Len-ding	Total
IEG Approach Paper: Insurance+Pensions	6	22	82	22	132
Of Which: Pensions			34	6	40
Omitted: Focus on health insurance, social protection, severance pay			1		
Omitted: Outside the relevant period			1		
Added: Additional projects (transfer from other portfolio areas)				+2	
Present Review: Pensions Interventions			***32***	***8***	***40***

Source: IEG.
Note: AS = advisory services; AAA = analytic and advisory activities.

Table 5.3 World Bank Pensions Interventions: Relevance for Capital Market Development (2004–14)

	WB AAA	WB Lending	Total
IEG Review of Pensions and Capital Market Support	***32***	***8***	***40***
o/w: Negligible relevance	8	2	10
Partial Upstream relevance (fund accumulation, legal/ regulatory)	16	4	20
Direct Relevance (asset management and investment)	8	2	10

Source: IEG.

From the perspective of relevance for capital market development, five AAA explicitly dealt with investment allocation policies and a further three discussed investments in the context of risk-based capital allocation (Table 5.3). Most of the assistance lay in a second cluster of 16 advisory interventions that had some upstream relevance to the capital market development theme, in three broad aspects: the accumulation and adequacy of pension funds; the regulation and supervision of pension funds; and third, especially after the global crisis, risk management including the use of risk-based supervision for pension funds. Eight advisory interventions had no discernible relevance to capital market development.

Box 5.2 Pensions: World Bank AAA, Lending and Capital Market Development

World Bank Country-Level Advisory Work in Pensions (32 interventions)
Pensions advisory work of ***some*** relevance includes Albania, the Caucasus, the Russian Federation and Indonesia, as well as a reimbursable advisory services in Bahrain. Two explicitly included assistance for private pension fund formulation (Colombia, West Bank and Gaza); and a regional study in Latin America as well as assistance in individual countries in the region looked at issues of competition in the pension fund sector. Another theme of indirect relevance was the regulation and supervision of pension funds (seven interventions). And especially after the global crisis, risk management, including the use

of risk based supervision rose in importance. Eight advisory projects looked at investment policies. These included five that looked specifically at asset management, (including two in Brazil, one in Colombia and two regional studies in Latin America), and another three interventions that looked at optimal asset allocation and capital trade-offs in the context of risk-based supervision (Albania is one example). As regards the remainder, capacity building was a frequent theme (Colombia, Guyana, Trinidad and Tobago, Fiji, Indonesia, Hungary, Mali and the West Bank and Gaza).

World Bank Lending to Support Pensions (8 projects)
The two core pension development policy loans of relevance were, first, the 2005 Brazil Fiscal and Social reform loan, which though clearly focused on fiscal sustainability, also made note of the need to increase asset accumulation; one of its key indicators was an increase in the assets of voluntary pension plans. In terms of outcomes, the central government successfully implemented the reforms envisaged and pension assets rose significantly. The second operation of interest, another development policy loans to Brazil (Rio Grande do Sul Fiscal Sustainability Development Policy Loan (2008)), included discussions of a voluntary private pillar in a multi-pillar pension system. It made direct reference to pension asset management, and included an indicator on returns achieved. It was well designed, highly relevant to the borrower, demand driven, and supported by the country partnership strategy. However, its efficacy was limited. The state government did not implement its overall package of reforms. Pension assets did not rise, and the hoped-for improvement in investment management did not materialize.

Other loans or grants included two with no discernible relevance for capital market development: IDF financed capacity-building grants (Sri Lanka, Bhutan); and an Asia-Europe Meeting (ASEM) trust fund financed technical assistance in the Philippines. One technical assistance loan to Serbia aimed to improve the efficiency of pension administration and revenue collection. Although the loan to Hungary was relevant, it was cancelled. An operation in Ghana incorporated reforms of regulation and supervision in the pensions sector, as part of a package of nonbank financial sector reforms.

Source: IEG.

Determining the *effectiveness* of these AAA from the perspective of contributions to capital market development is difficult, as this was typically not an explicit objective. IEG's review finds that, looking only at the subset of eight projects of "direct relevance," which mentioned investment allocations, all except the project in Colombia, which is under way, have delivered their final outputs. One case in which impact is also discernible is in Brazil, where the 2006 AAA initiated a series of engagements on pension reform that spanned several years and included draft legislation on pension reform. Engagements in Brazil included two development policy loanos, further diagnostic work under the umbrella of FSAPS, and most recently (2013) the second phase of a programmatic nonlending technical assistance for pension reform.

The eight World Bank lending operations in the area of pensions that were reviewed included four with direct relevance, and one had very positive results. These included two in Brazil with direct references to asset accumulation and allocation, an operation in Hungary that was cancelled, and a small capacity-building exercise in Bhutan that drew attention to the need to look at investment policies. Although one operation in Brazil had a lot of traction and positive results, in the case of the second, the implementing agency lost its momentum and outcomes were poor. Of the remaining four, two had some relevance because they focused on regulation and supervision, and two had no relevance. One recent exception, however, is a Morocco policy-based loan, in which, among its various components, there was a an explicit focus on pension reforms that would help to ensure continued institutional demand for capital markets securities. With this exception, World Bank pensions loans or non-lending technical assistance that paid attention to the role of pension funds as institutional investors were infrequent.

Perhaps because of the strong focus of most of these operations on fiscal or social issues, there was less attention to possible benefits from the linkages between pension funds and capital market development (Table 5.3).[89]

IEG's Pension Reform evaluation similarly noted that although capital market development was explicitly included as one element of the secondary goals of pension reform, diversification of pension funds' investments was not achieved (IEG 2006c). This goal was to be supported by the design of multi-pillar, funded, defined contribution pension schemes. In terms of findings, the report shows that in many cases pension investments remained concentrated in government securities markets, under tight investment guidelines—possibly reflecting macroeconomic constraints.

OPERATIONAL SUPPORT FOR INSURANCE

World Bank advisory services accounted for 48 out of 64 of its insurance interventions but most (26 out of 48) had negligible relevance in terms of contributing to the development of capital markets. Thirteen dealt with specialized insurance (Appendix 5.2). Another four had very limited focus in insurance. Many insurance elements were embedded in multi-sector financial crisis risk mitigation, especially for deposit insurance. In principle, and within appropriate risk parameters reflecting the purpose of the funds and the volume of resources under management, the resources mobilized in specialized insurance schemes could be invested in long-term assets in local or regional capital markets. However, the management of these assets was typically not alluded to. None of these programs funded large-scale accumulation , for example, as under life insurance or general property/casualty insurance, and asset management would be fragmented.

The remaining 22 World Bank advisory interventions exhibited high quality at entry and a high level of technical competence. However, there were no insurance advisory interventions that directly discussed the management or allocation of assets, or the nature of instruments they should be invested in. The focus was largely on helping governments or insurance supervisors to reform the legal and regulatory framework, or conduct capacity-building programs that involved preparation for the introduction of risk-based supervision, as envisaged under the IAIS Solvency II regime. In principle, this eventually implies looking at the nature of assets held, and how they match liabilities. Eight of these programs referred to an FSAP and followed up on its recommendations.[90]

In contrast to the World Bank, *IFC advisory services in insurance* usually involved practical feasibility studies of new products or development of new tools. Its insurance interventions mostly took the form of investments or loans. Only six out of 28 IFC interventions were advisory. IFC's insurance advisory work seemed to be closely linked to its access to finance work (life insurance for low-income persons in partnership with microfinance, in Brazil; small and medium enterprise insurance in the Pacific Islands), and aimed at creating or expanding

markets for specific private insurers. There was no discussion of fund accumulation, building a regulatory framework, or investments in capital markets instruments.

Of the 16 World Bank lending operations in the insurance sector, few were relevant to the present theme. Only four had a modest ""upstream" focus on the structural strengthening and reform of the insurance sector. Many (six out of 16) focused on specific and highly specialized types of product insured, which often posed unique challenges in terms of estimation and mitigation of risk. Close to a third (five) provided protection for catastrophic risks involving earthquakes and cyclones; one focused on political risk insurance in a trade facilitation loan. The World Bank typically served as an intermediary in the purchase of insurance or re-insurance coverage from major international insurers. There was no upstream or downstream relevance for capital market development. Six budget support loans were also included, which often had minor or negligible insurance components. If included, they often had a specialized product focus, sometimes in combination with fiscal or social objectives. When projects with no capital market implications are removed, four development policy loans remain, including three financial sector operations in Egypt, from 2006 to 2010, and one multi-sector development policy loan in Serbia. These contributed indirectly via improving the overall regulatory framework and strengthening insurance institutions.[91] Yet, these operations did not mention the allocation or management of accumulated assets, let alone their investment in capital markets instruments. In principle, the resources mobilized in specialized insurance schemes could be invested in long-term assets in local or regional capital markets. However, the management of these assets was typically not alluded to. In some cases there was a presumption that for liquidity purposes, the insurance assets would be invested in short-term bank deposits.

Efficacy of these four projects was mixed. One development policy loan in Egypt envisaged reforms of state-owned insurers and introduction of risk-based capital, but they were not implemented, however; in another, insurance-related reforms were implemented as planned. In the third operation in Egypt, no relevant targets were set. In Serbia, according to the Implementation Completion Results Review, insurance industry reform targets were met.[92]

IFC has been more active in providing financial support to insurance companies than in conducting advisory services. During the review period (2004–14), IEG's portfolio of IFC insurance products includes 23 equity investments made by IFC in insurance companies. However, 11 were rights issues, and are therefore reviewed together with their parent projects. As may be expected by their respective mandates, there is a marked difference in the nature of the lending operations of the World Bank and the investment operations of IFC. IFC's investments in private insurers were direct attempts to support the development of individual insurance companies and to strengthen their financial position, management, and corporate governance. IFC also attempted to expand the coverage of insurance, and to launch new insurance products, including in greenfield companies.

IFC's investments helped expand insurance availability, especially for life, health, and retirement insurance, (six projects), expanded reinsurance facilities (three projects), and supported broad-spectrum insurance companies serving the poor (one project). Almost all expanded insurance availability and aligned with prevailing country partnership strategies. Reviewed in terms of their potential contribution to capital market development, in the metrics of the present evaluation, the projects all show upstream relevance, because they contributed to the leverage of capital and thus the accumulation phase of insurance assets, with the exception of two that failed or closed. It is also possible that they helped with downstream relevance, through strengthened asset management. However, there is no reported information on the investments of these companies, or the management of their funds.

Outcomes are reported relative to stated objectives of the projects, and results are mixed. Financial results in two are reported to be satisfactory or better. In another four, results were mostly achieved. Available documents report a deepening of capital markets, and of capacity of investee companies and local regulators. However, three projects faced difficulties. In one, the regulatory environment deteriorated; in another, the investee company showed improvements, but progress was less than expected; in the third case, the international partner abandoned the local market and repurchased IFC's investment before any results were achieved.93

In sum, more than half the World Bank advisory interventions, and all IFC's advisory services, had negligible relation to capital market development, though many appeared useful and innovative in bringing new products to the insurance markets of client countries (Table 5.4). There was upstream support through the strengthening of the regulatory environment and soundness of insurance systems (22 advisory projects at the World Bank) and directly through expanded and leveraged assets (nine IFC investments). Although prima facie likely to have been undertaken, there is no documented evidence of interest in the asset allocation or asset management of the insurance sector. IFC had the opportunity to review individual companies' investments, as part of their management contribution. On the World Bank side, changed regulatory requirements under IAIS II required a move toward risk-based systems, with implications for investments. However there was no explicit discussion of this issue.

5.1

Table 5.4 IEG's Portfolio Review of Bank Group Insurance Interventions and Capital Markets (2004–15)

	IFC AS	IFC Inv.	WB AAA	WB Lending	Total
IEG Approach Paper: Insurance	**6**	**22**	**48**	**16**	**92**
Of which:					
Negligible relevance (Specialized products: political risk; catastrophic risk; agr/crop index insurance; mortality tables, unemployment insurance, consumer protection)	6		13	6	
Negligible relevance: negligible focus on insurance in multi-sector DPLs, non-lending technical assistance, or broad-spectrum financial sector			4	5	
Negligible relevance: Different focus/miscoded			9	1	
Negligible relevance: failed/closed projects		2			
Upstream Relevance: (legal/regulatory; asset accumulation)		9	22	**4**	
Direct/downstream relevance: asset management and allocation			(7)*		
Omitted: IFC: (Rights issues)		11			

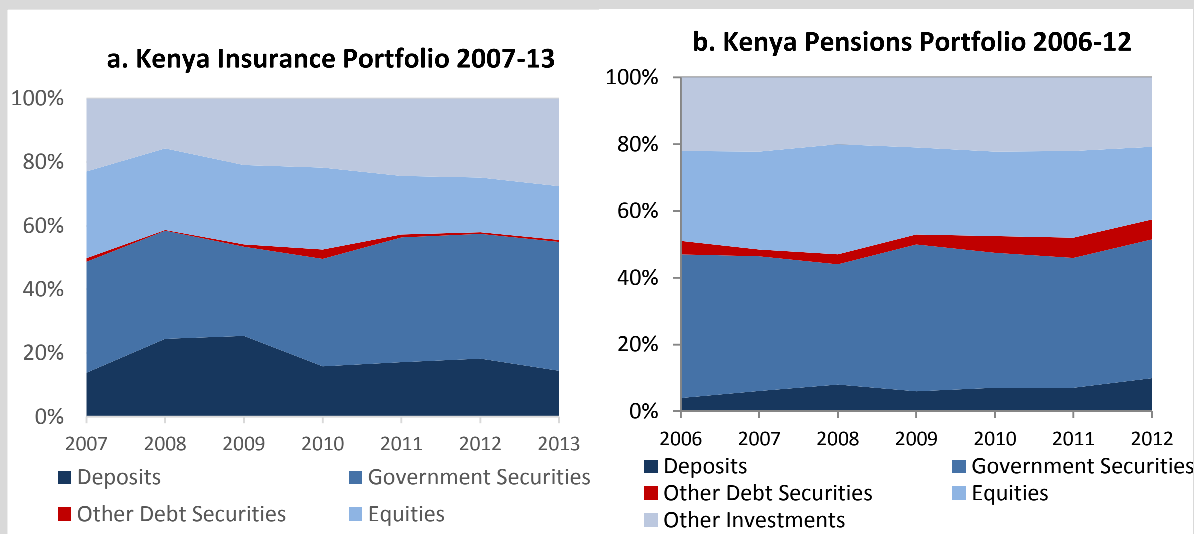
Source: IEG.
* Also included in projects with upstream relevance. Indirect or downstream relevance in the context of risk-based capital allocations.
Note: AAA=analytic and advisory activities; AS=advisory services; DPL=development policy loan.

GAPS BETWEEN DIAGNOSTICS AND COUNTRY PROGRAMS

IEG's field visits addressed additional questions on the Bank Group's role with respect to institutional investors and capital market development that could not be answered through a desk-based review of individual operations, especially: the interaction between the World Bank's FSAP-related diagnostic work on insurance and pensions (including issues pertaining to assets under management), and the extent to which they were translated into Bank Group operational or advisory work; as well as additional evidence on outcomes.

FSAPs typically did highlight the links between contractual savings institutions and the development of long term financial instruments, but it was only in a small number of cases that these observations were picked up in country work programs, as India illustrates. Thus, the 2001 India FSAP noted that improving the pension and contractual saving system would increase the demand for long-term financial instruments, and it also pointed out that a reduction in obligatory holdings of large volumes of government debt would stimulate the capital market.[94] The parallel 2001 Coutnry Assistance Strategy (CAS) mentioned that the World Bank would work with the government in selected areas of capital markets supervision and regulation, including improving the pension system. The 2005 CAS reaffirmed that the World Bank would accelerate pension system reforms, which would expand the institutional base for long-term savings instruments. However, a proposed 2008 technical assistance project that was intended to include the pensions area was dropped (P113834) and there was no further discussion of insurance or pension reforms in the 2009 or 2013 CASs.

Figure 4 Institutional Investor Portfolio Diversification in Kenya: Insurance and Pensions



Sources: IBRD, IFC.

Similarly, in Kenya there was a significant amount of substantive analysis on contractual savings under the FSAP programs of 2004 and 2010, including recommendations on asset management, but with limited follow-up until recently. [95] Thus, there were minimal references to pensions reform in the CAS 2004–09. In the wake of the ESMID program (see Chapter 2), this issue has increased in prominence. The CAS 2010–13 noted the need for furthering regulatory reform and developing local securities markets, including pension and insurance funds, for supporting key economic and social development needs, and this is now reflected in the concurrent Infrastructure Finance project as well as the Financial Sector Support Project.[96] IFC has also funded some work with the pensions supervisor for developing modernized pension investment guidelines and regulations that would be suitable for the risk-based supervisory approach and would allow more flexible investment by pension fund managers in broader asset classes to achieve greater portfolio diversification. So far, however, there is little evidence of a change in the level of diversification of funds under management (Figure 4), though given the relatively recent recognition of these issues, it is still early to know outcomes.

Because Vietnam's first FSAP was issued in 2014, there was no scope for the FSAP program to guide the development of insurance and pensions. None of the CASs or CPSs mention pension reform, and there was no discussion of asset management, likely reflecting the absence of private pension funds in Vietnam. References to insurance do not look at the overall industry or the role of insurance funds as pools of investible assets. Yet, the Bank Group supported an IAIS-style Core Principles self-assessment during this period; however, with the specific aim of compliance with standards relevant to its pending accession to the World Trade Organization.

Fiscal imbalances in Morocco's pay-as-you-go pension system, though recognized in its 2003 FSAP, were not addressed in the World Bank's work program until the 2014 development policy loan, however, because of more pressing issues in the banking sector. This operation also clearly mentions phased reform of the pension industry through a parametric reform of the contributions and benefits structure. When the loan closed at the end of the year, the related conditions—namely, the incorporation of the reform blueprint in the Budget Law—were accomplished, and a Concept Note for a follow-up operation addressing the next phase of reform is under preparation. Although there were no Bank Group interventions in the insurance industry during the period of the evaluation, diagnostic engagements on allowable investments have been undertaken.[97]

The greatest evidence of sustained support, at least partially relevant to capital market development, and with some discernible results, was observed in Colombia. There was long and virtually continuous World Bank support to Colombia for pension reform, embedded in a number of different and complementary vehicles (FSAP diagnostics, FIRST technical assistance and the development policy loan program, despite difficulties in achieving political consensus. Moreover, the dialogue included efforts to mobilize pension fund investments for investment in longer-dated financial instruments, with specific engagement on the issue of investment guidelines, mostly recently to allow investment in project bonds. These efforts are linked to the Bank Group's Deep Dive Initiative and the Programmatic Approach for Sound Financial Sector Development.

There were achievements in terms of reform, though attribution to World Bank interventions is difficult. The composition of pension funds and insurance companies' portfolios now exhibits reasonable levels of diversification (including across bonds and equities) and sovereign bond holdings (at a third of their total portfolio) are significantly lower than at banks where sovereign bonds represent more than 50 percent. Moreover, there has been a declining trend in portfolio concentration. There is scope for further diversification. The exposure of pension funds to non-Government fixed income instruments, at at 11 percent, is still well below the 60 percent set by the prudential cap. Yet there are practical limits to diversification, since non-sovereign instruments are illiquid, and there would be a tradeoff between diversification, on the one hand, and loss of liquidity on the other.

Box 5.2 Institutional Investors: Bank Group Support in Colombia

Starting from assistance for the preparation of the Financial Sector Reform Law in 2006, three follow-up advisory interventions covered pension reform issues over this period. These were complemented by the Latin American regional study on pensions, which provided background country-specific and cross-country technical papers. One advisory intervention was still ongoing as of end-FY15. Advisory inputs were complemented by operational support through development policy loans approved in 2008 and 2010, which touched upon pension and insurance reforms. In 2010, significant reforms were carried out,with subsequent changes allowing institutional investors to broaden their investments options and better adapt to contributors' risk appetites.

Remaining design flaws in the system were identified in the 2012 FSAP: an overgenerous pay-as-you-go system, and the competing nature of the pay-as-you-go and funded schemes, the requirement to pay pensions at least equal to the high minimum wage, and quantitative (that is, with upper limits for investments in a particular asset class) rather than prudential (risk-based) investment limits, complicating the ability of institutional investors to diversify risks or buy certain assets. World Bank dialogue included efforts to mobilize pension fund investments for investment in longer-dated and infrastructure investments, including capital markets instruments, and a FIRST-supported technical assistance program, helped amend investment guidelines to allow for long-dated infrastructure investments. Starting from 2014, institutional investors' ability to invest in certain infrastructure projects, including though capital market instruments, was eased.

Source: IEG.

IFC's activities in Colombia's insurance sector have been limited to an investment in the holding company of Seguros Bolivar in 2007; the World Bank was not active in this sector. IFC's main additionality in this transaction was support to a longstanding client on a Bank Group-wide effort to promote transparency and prepare its subsidiaries for eventual public offerings. The transaction was very successful and led eventually to the IPO of Davivienda Bank, one of the key holdings. These IPOs, together with improvements in corporate governance, clearly constitute capital market support, as confirmed by several market participants, despite possible questions of a negative impact on competition.

Institutional Investors and Capital Markets – A Summary of Findings

With one possible exception, IEG case study evidence also shows that limited systematic attention was paid, in operational work, to the asset management of insurance or pension funds. FSAP programs provided high-quality diagnostics and good recommendations that were rarely operationalized. Country strategies in these countries also made little reference to contractual savings in the context of capital market development, though Colombia is an exception, and the Morocco program has also made efforts to reflect this issue. Knowledge work in Bank Group operations at the country level was significantly focused, in the case of insurance, on needed new products, and in both areas of contractual savings—on risk management as well as, for pensions, on fiscal sustainability—through which indirect support has been provided.

World Bank research at the global level on second-pillar pension reforms during the late 1990s and early 2000s was motivated not only toward diversifying pension systems but also to fast-tracking the parallel development of pension funds and capital markets; these concerns were not reflected in operations. During the following decade, World Bank research tracked the mixed performance of these second pillars and is now searching for better incentives for funds to maximize returns. But concerns about investments and returns was, surprisingly, not mirrored in operations, though the rate of return should be a primary concern of insurance and pensions, even if not from the optic of capital market development.

There has been little change in this respect since the World Bank Pension Reform evaluation (IEG 2006c), where capital market development was explicitly included as one element of the secondary goals of pension reform, to be supported by the design of multi-pillar, funded, and defined-contribution pension schemes. In terms of findings, the report showed that diversification of pension funds' investments was not achieved, and in many cases pension investments remained concentrated in government securities markets, under tight investment guidelines, possibly reflecting macroeconomic constraints.

These results serve to illustrate that the links between institutional investors and capital market development may be taken for granted, and that there has been negligible direct effort at the Bank Group to ensure that such links actually operate, by looking at asset management issues. They do not have any reflection on the quality of interventions in these sectors, which are not evaluated. The analysis also suggest a divergence between the "public" incentive for capital market development, and "private" concerns about liquidity, returns, and risk aversion, which needs to be recognized explicitly. However, asset management is an implicit element of all funded insurance and pension schemes, and better returns can only improve sustainability. Moreover, in a risk-based capital framework, greater attention to the nature of the portfolio of assets held would be a part of an overall review of soundness. If capital market development is an institutional objective, greater thought could be given to harnessing the insurance and pensions agenda to support this objective.

6. Capital Market Infrastructure

Highlights

- The variety of World Bank support for capital market regulation and development was usually relevant in terms of country objectives, though design could sometimes be better adapted to developing countries.
- Project outputs were found by IEG to be of good quality in more than half of the cases reviewed. TTL self-evaluations were uniformly more complementary.
- Outcomes of the capital markets regulation and development interventions are harder to assess because of inevitable time lags; better World Bank monitoring of -erm changes is desirable.
- The present country-driven approach to projects could be complemented by a more strategic cross-country focus, especially in view of common dimensions/elements.
- More focus on knowledge sharing and more knowledge building on common themes is desirable.
- Finally, there are prominent gaps in information and record-keeping especially closer to the final stages of projects that need attention if knowledge-based services are to be supported.
- In the payments and securities settlement area, the World Bank contributed significantly at the global level to the formulation, implementation, and dissemination of standards, and country assessment against standards. It played a unique role in reflecting emerging market perspectives to standards setters, helping to make standards globally applicable.
- The World Bank supported the building of institutions that bring together regional regulators in the payments area and enabling the emergence of dialogue, diagnostic work, and systems enhancement.
- The World Bank payments interventions at the level of individual countries usually focused on the overall payments system, many with emphasis on large value and real time gross settlement.
- Securities clearance, settlement, and depository arrangements were sometimes included in overall systems, sometimes in conjunction with liquidity management rather than securities market development, reflecting the nascent capital markets in many client countries.
- Most country interventions were of good quality and made reference to international standards. Systems installation was often but not always achieved. Advisory services were often paid for, though evidence on adoption is variable.

Well-functioning capital markets require sound market infrastructure to attract the confidence of investors.[98] This includes the "soft" aspects, such as sound legal and regulatory frameworks and institutions, good corporate governance of listed companies, the protection of creditor rights, and sound rating agencies. They also require hard infrastructure, such as trading systems, settlement and clearance mechanisms, and securities depositories. This chapter first selectively evaluates the role of the Bank Group in securities market regulation. Next, it summarizes IEG's evaluation of Bank Group contributions toward improving corporate governance, which are detailed in Appendix 6.2 and summarized below. The chapter finally examines the Bank Group's role in securities clearance and settlement. Areas of capital markets infrastructure, such as insolvency and creditor rights, or rating agencies, are not included in the scope of the evaluation.

Establishing Sound Legal and Regulatory Frameworks

Capital market development and capital market regulation are inherently intertwined. In some respects the regulatory structure develops in tandem with the market's development. In others, it must be in place as a precondition to market development. A significant number of the projects identified in IEG's portfolio of Bank Group capital markets projects are not focused on specific market segments, but look at overall capital market development, often with a focus on legal and regulatory issues. IEG's Approach Paper identified some 86 projects in this category. Twenty-nine of these, clustered in 10 countries, are reviewed here (see Appendix Table 6.1).[99] Interventions varied in scope and depth, and many were externally financed. Nine were initiated in 2008 or earlier; the remainder were initiated from 2009 and later, and some are ongoing. In size and scope, they ranged from limited technical assistance efforts costing $7,000 (CMPGL Nigeria III, P127365, 2011) to comprehensive Capital Market Development Strategies entailing grants of more than $2.15 million.[100] The bulk of the sampled projects (17 out of 29) were below $200,000, and 25 were for technical assistance. Thirteen were financed by the financial sector advisory service trust fund, FIRST.[101] Another three were financed by GEMLOC (see chapter 2) and 10 were financed directly through the World Bank's own budget.[102] The review is largely desk-based, though information is supplemented through country case studies for three of the nine countries: Colombia, Morocco, and Vietnam. Although a number of documents were unavailable (as Table 6.1 illustrates), sufficient information was provided on each project to enable a basic review. Other relevant documents examined included Country Partnership/Assistance Strategy Reports and related FSAPs including relevant annexes.

Table 6.1 Capital Markets Regulation and Development: Availability of Documentation (29 Projects)

	Detailed initiating memoranda or concept notes	Regular supervision reports	Interim reports/consultant reports	Final outcome/project report	TTL's project completion report/Grant monitoring report	Previous external validation or independent review
Number of interventions (out of 29)	17	14	8	19	23	1

Sources: World Bank and IEG.
Note: TTL=task team leader.

FOCUS AND OBJECTIVES OF THE SAMPLED INTERVENTIONS

The majority of projects reviewed here (20) addressed legal and regulatory reform or regulatory capacity development, though some focus on capacity building and a few deal with special topics. Nine included the preparation of overall capital market development strategies. There was some overlap. Thus, Costa Rica (2014, P132213) combined an overall capital market development strategy with the preparation of amendments to the securities law as well as the drafting of regulations in several specific areas. Pakistan (2005, P096372) aimed primarily at

building capacity among securities markets regulators but also included a review of regulations and regulatory procedures. Finally, a third group included discrete country-specific tasks (for example, Azerbaijan (2012, P125462) undertook broad capital market development, but also included improving national financial literacy and the Azerpost system (Box 6.1).

Common themes emerged across projects in seemingly dissimilar countries. Thus, countries as diverse as Costa Rica, Nigeria, and Sri Lanka received assistance concerning demutualization of the national stock exchange. Projects on securitization, including covered bonds and asset-backed securities, were undertaken in Costa Rica, Morocco, and Sri Lanka. The West Bank and Gaza and Vietnam, despite dramatically different levels of market development, obtained assistance to improve regulatory capacity for risk-based supervision.

Box 6.1 Examples of Select Capital Market Regulation and Development Interventions

1. Supporting the Development of Overall Capital Market Development Strategies

Azerbaijan: Capital Market Development (P121468, 2010) and Financial Sector Modernization (P125462, 2011)**.** The project developed a comprehensive capital market development strategy, including a five-year implementation action plan. Project consultants were responsible for providing a critical analysis of current market conditions within Azerbaijan, preparing a necessary reform agenda, and proposing the action plan.

2. Legal and Regulatory Reform and Capacity Building

Nigeria: Enhancing the Capacity of the SEC (P126659, 2011): The project was designed to enhance the capacity of Nigeria's Securities and Exchange Commission (SEC) to more effectively oversee and monitor the nation's capital market institutions and participants, including the Nigeria Stock Exchange (NSE), to improve transparency and reduce market abuse. An important component of the project examined the planned demutualization of the NSE, including providing the SEC with recommendations on policy and regulatory aspects of the demutualization and developing guidelines for improving corporate governance at the NSE.

3. Projects Supporting Specific Aspects of Capital Market Development

Colombia Money Market Development (P105418, 2004) supported the development of a strong, well-regulated and stable Colombian money market built around reforms in the primary and secondary market for government Treasury bills. The project assisted in the design and implementation of an automated facility for borrowing and lending securities and changes in accounting treatment for functionally similar but legally distinct financial products.

Source: IEG.

RELEVANCE OF THE INTERVENTIONS

The selected projects appeared to have *relevance to the recipient countries*, because their selection was determined collaboratively by the Bank Group task team leader (TTL) and client country staff. Yet, there was limited mention of these projects in countries' strategies (CAS/CPS), an indication of *relevance to the World Bank country program* (Table 6.2). The two projects conducted in Pakistan were among the largest, by funding, among the 29 projects reviewed, and yet neither project was discussed in their two contemporaneous Pakistan CPS Reports.[103] Project preparation documents, however, do sometimes allude to underlying country strategies. Thus the proposal for the second project in Sri Lanka mentions that "the activity is strongly aligned

with the priorities set out in the Country Partnership Strategy (CPS) (2012-2016)." A review of the CAS/CPS referred to finds some reference, though not in depth. Occasional broad references were sometimes found, however, to the overall program of capital development projects; the Nigeria CPS (2014) is an example.

Table 6.2 Capital Markets Regulation and Development: Project Relevance – CAS/CPS Context

	Reviews undertaken of relevant CAS/CPS	CAS/CPS with *specific mention* of identified projects	CAS/CPS with *general mention of a capital market development program*	Availability of final project reports (Yes/No)	Number of reports of superior/good quality	Number of reports of average or generic quality
Number of projects (out of 29)	29	2	28	19*	10	4

Sources: World Bank and IEG.
Note: *The final reports in four projects could not be reviewed as English translations were not available, and in a fifth, the report was not available. CAS=Country Assistance Strategy; CPS=Country Partnership Strategy.

This "bottom-up" approach raises larger issues of relevance at a programmatic and World Bank-wide level**.** In some cases, while individual interventions were well designed and executed (as, for example, in the capital market development projects in Azerbaijan and Costa Rica) given the very small size of each country's economy, from a global perspective, one could question the long-term objective of the development of a self-standing capital market.

The analysis also raises the question of whether, to the extent that the focus of some of the projects was similar, the network may also benefit from more explicitly sharing the mode of analysis and approach, and perhaps resource pooling. For example, three out of ten countries studied had projects that entailed the demutualization of the national stock exchange. Even if the projects could not be collectively undertaken on an ex ante basis, for example, because of differences in timing, efforts could be made to collectively capture the lessons for use in the next country where demutualization may be requested. For example, in November 2011, a report was completed and a workshop held in Nigeria on the stock exchange demutualization issue. The report is a very strong and objective analysis of a complex question. It would have been beneficial to provide this report to the two other projects examining the same issue. The Sri Lanka project (P126528) began in 2011 and the Costa Rica project (P132213) began in 2012.

IEG reviewed the *relevance of project design* in terms of, first, the linkages between the project as conceived and executed, and the underlying FSAP's diagnostic and prioritization (Table 6.3). Thirteen projects in the sample were financed by FIRST, which had the explicit objective of funding projects suggested in the country's FSAP or Report on the Observance of Standards and Codes (ROSC). Given this explicit programmatic linkage it is not surprising that five of the seven FIRST project proposals in countries that had an FSAP within five years referred to the

FSAP. Two other FIRST-funded projects referred to an FSAP older than five years (Azerbaijan P121468 and Costa Rica P132213).

Table 6.3 Capital Markets Regulation and Development: Project Relevance – Links to FSAPs

	2004-08	2009–14
All projects (29)		
FSAP available in preceding 5 years?	5	11
Mention of underlying FSAP in project document	2	9
IOSCO Principles assessment/ Cap. Mkts Technical note available?	5	6
IOSCO Principles / Technical Note mentioned?	1	4
FIRST-financed projects		
Prior FSAP available in preceding 5 years?	1	6
Mention of prior FSAP?	0	5
IOSCO Principles assessment/ Cap. Mkts Technical note available?	1	6
IOSCO Principles / Technical Note mentioned?	0	3

Sources: World Bank and IEG.
Note: FSAP=Financial Sector Assessment Program; IOSCO=International Organization of Securities Commissions.

Over time, the links to underlying FSAPs appears to have increased (Table 6.3) in both FIRST-funded and in other projects. References to the FSAP, however, were limited and somewhat generic. Four projects (three FIRST) contained references to a specific IOSCO principle or FSAP technical note.

Six of the projects examined required extensions of time of more than one year. Reasons, when discussed, ranged from the exogenous and unavoidable (changes in government executives and civil unrest), to government timing preferences, or changes in the project plan. Budget overruns were not a major issue. Only two had budget overruns above 10 percent of the original budget. Six projects appear to have been completed under budget.

In terms of basic monitoring of outputs and outcomes, information was partial (Table 6.4). Only five had a substantially complete record of the project, and in seven, minimal information was available.[104] Because most of the projects fall in the category of advisory work, only limited project completion reports are required. However, based on the 13 projects where a self-rating was found, 12 were rated satisfactory or better.[105] Curiously five of the six projects that were delayed for longer than one year received satisfactory or higher ratings.[106] Three projects in which elements were dropped were each rated satisfactory.

6.1 Dissemination information, if any, only focused on client dissemination, with rare consideration of whether project findings would be beneficial to other countries or future projects. This lack of discussion was surprising, because many projects produced high-quality reports in areas such as risk-based supervision that could have been used elsewhere. The grant

report and monitoring report for the Nigeria project on demutualization highlighted its potential benefits for others, but the two projects in Sri Lanka and Costa Rica, beginning just after, were seemingly unaware of it.

Table 6.4 Capital Markets Regulation and Development: Project Relevance – Completion Reports

Report Characteristics	Numbers
Number of projects on which completion reports (TTL and/or GRM) were available	23
Number of project completion reports on which a rating was provided for the final report	10
Number of final reports rated satisfactory or higher	10
Number of projects with no rating for final report on completion report	13
Number of completion reports on which a satisfactory rating was awarded by the TTL for project	12
Number of completion reports with a partially satisfactory rating	1
Number of completion reports with no rating for project on completion report	10
Number of completion reports on which a satisfactory rating was awarded by the TTL despite significant delays (6 projects delayed more than one year), No rating for one project	5
Number of completion reports on which a satisfactory rating was awarded by the TTL despite incomplete components (total 3 projects)	3

Sources: World Bank and IEG.
Note: TTL=task team leader; GRM=grant report and monitoring report.

RESULTS – OUTPUTS AND OUTCOMES

Self-ratings, more easily available than independent external ratings, were based largely on output and were uniformly satisfactory. They did not indicate whether regulations had been submitted to the legislature, let alone whether they were adopted or enacted. A self-rating for the final report or product was found for 10 of 23 projects and each was self-rated at least "satisfactory" and occasionally "highly satisfactory." No comments were found indicating that a project product was inadequate or unsatisfactory. The present evaluation independently reviewed 14 final reports or products, on which sufficient information was available, and found 10 to be of high quality. The remaining four products were acceptable but of lesser quality.[107] The capital market development strategy reports for Azerbaijan (P121468), Costa Rica (P132213), Vietnam (P097913) and Sri Lanka (P147366) each provided sound analyses of the issues, challenges, and strategies that should be considered for capital market development within the country. In Azerbaijan, for example, the project reports reviewed were found to be well thought out and well written, realistic in the assessment of the current market and the possibilities for growth, and responsible in not recommending development initiatives that would be too costly and too sophisticated for a capital market of this size and potential. In Costa Rica, another small country, the final reports and technical materials available were considered of high quality.

A number of the projects developed draft laws or regulations that client considered to be of high quality and suitable for submission to decisional bodies, and some were adopted. In Morocco (P123550) the covered bond law was enacted. In Vietnam (P106405), new regulations

governing investment funds were adopted and implemented. [108]In Costa Rica (P132213) a substantial revision to its Securities Act was drafted and submitted to the legislature, and new regulations governing intermediaries, investment funds and hybrid bonds for infrastructure development were submitted for adoption. By 2015, the investment funds and hybrid bonds regulations were also finally adopted. However the Securities Act amendments and the regulation on intermediaries have not been finalized. In Sri Lanka (P126528), the draft amendments to enhance SEC civil enforcement powers and capacity, and the legal framework to strengthen investor protection and introduce new financial products were completed, though not enacted into law, as of 2015.[109]

The four products considered acceptable but of lesser quality were found to be generic, not country-specific, in content, and lacking the level of detail and quality of analysis found in the other products. Two examples were powerpoint presentations to train regulatory staff in Pakistan (P096372) and in the West Bank and Gaza (P131009). The Pakistan project, to train Securities and Exchange Commission of Pakistan staff on mutual fund regulation and onsite inspections, dealt largely with business operations and investment principles of mutual funds in general rather than the creation and operation of a regulatory examination and supervision program. The West Bank and Gaza training was meant to develop a risk-based supervision system for the authorities, but was a nonspecific explanation of risk-based supervision systems in other countries.

Comments on Project Outcomes

To the extent that information is available, and given the relatively short passage of time since project completion, IEG's review of the projects in this sample indicated clear positive outcomes in some projects. These comments are prefaced with the caveat that outcomes and impact may not be achieved until many years after project completion. Even beyond adoption of draft regulation, market response can take years, and exogenous factors can materially impact long-term success.[110]

6.2 Positive outcomes were observed in Azerbaijan. Following completion of the advisory report, the Bank Group approved a Capital Markets Modernization Project (CMMP; US$2.15 million), to implement its proposals. Projects on government debt markets in Colombia (P105418), Costa Rica (P124287), Morocco (P129990), and Nigeria (P127365) all appear to have achieved positive results or indications of promising outcomes, in three cases corroborated by IEG findings in the field. In Colombia, significant changes were made to rationalize competing financial instruments. In Morocco a new automated platform for trading government securities in the secondary market is now operational, though trading continues to be primarily over the counter. The Ministry of Finance has begun making changes in its debt issuance calendars that will support development of a benchmark yield curve, another positive outcome from this project. Recommendations on the primary dealer system have also been formally incorporated

into a convention signed by the dealers. The Colombia project (P148637) to strengthen its self-regulatory organizations appears also have had a positive outcome. A year later, in 2014, the International Organization of Securities Commissions (IOSCO) assessment undertaken as part of an FSAP, rated the principle on the use of self-regulatory organizations as fully implemented. Similarly, in 2013, following completion of the Vietnam project (P106405) on regulation of investment funds and adoption of the regulation drafted under that project, the first IOSCO assessment for Vietnam was completed and the four principles on investment funds received positive outcomes for a first-time assessment.[111]

Outcomes elsewhere are mixed or unclear. Projects in three countries addressed demutualization of national stock exchanges. As of 2015, the Colombo Stock Exchange in Sri Lanka has not been demutualized.[112] Similar to Sri Lanka, the Nigeria Stock Exchange had not been demutualized as of September 2015.[113] No action has been taken in Costa Rica either. However, worldwide, the trend toward demutualization, popular at the turn of the millennium, seems to have abated. In Costa Rica and Vietnam, some of the draft laws prepared are yet to be adopted.[114]

However, action by a legislature is an exogenous factor beyond the control of project. Among the cases reviewed, there were exogenous factors such as a change in client country personnel and reorganization (Pakistan), a failure of the legislature to act on reform proposals (West Bank and Gaza) which had a material impact on project completion, output, and outcome. Although sometimes hard to see, (Pakistan), there were instances where high-risk was evident. A project in the West Bank and Gaza (P131009) to develop a set of securities regulations noted that the regulations developed could not be adopted and implemented until the foundation law, drafted in a previous project (P117420), was enacted. The project proposal was clear that passage of the law was unlikely to occur for years. There may have been factors such as country engagement in fragile and conflict situations that encouraged the World Bank to proceed nevertheless, and this could be viewed as an extenuating circumstance.

CAPITAL MARKET INFRASTRUCTURE: REGULATION AND DEVELOPMENT – A SUMMARY OF FINDINGS

Programs appear relevant in a country context, and related to FSAPs, despite limited CAS/CPS references. In terms of relevance, many projects make references to preceding diagnostic FSAPs. Global relevance and prioritization across countries is harder to determine. Yet the extent and strength of the link to FSAPs and the degree of reflection in project design was variable, and could have been stronger. In terms of links to country programs, the projects were rarely explicitly referred to, but this could be a reflection of their frequently very small size. Often there was a mention of an overall capital market development program. It is clear that the present bottom-up approach of determining projects reflected a good level of relevance to the country team. In terms of strategic relevance for the network as a whole, there remain fundamental questions as to whether the country-driven model on its own is adequate, and whether a supplementary global assessment is needed. Thus the objective of building

standalone national securities markets in countries as small as Costa Rica and Azerbaijan could be considered too ambitious, notwithstanding the perceived benefits of success.

Project *design* in many cases reflected traditional best practice in advanced countries e.g. with regard to supervisory practices. The challenges of trying to impose sophisticated international best practices on a market in its infancy was clearly identified in the closing report of one project in the West Bank and Gaza (P131009).[115] Similarly efforts to develop specific and sophisticated securities products, such as securitization, or covered bonds in Morocco, or asset-backed securitizations in Sri Lanka, or hybrid infrastructure securities in Costa Rica, may have been too complex and advanced for the capital markets and financial sectors in these countries.[116]

Project *processes and outputs* were mixed but generally positive. Although final reports or products could not be located for 10 projects, the final outputs that were found (19) and reviewed (14) were diligently executed. Fourteen of these reports or products were found to be of high quality and the remaining four were of satisfactory quality. There were six instances of significant delay (one year or longer), but the remaining projects were completed on schedule or close to schedule. There were only two instances of significant budget overruns (greater than 10 percent) and six projects were completed under budget. Three projects involved occasions where not all intended tasks and outputs were produced. In terms of *outcomes*, allowances must be made for the inevitable lag in final results in the legal and regulatory area. The review observed that in many cases drafted laws or regulations were completed but not acted upon for years, or not at all.

Corporate Governance: Support Extended by the Bank Group: an IEG Assessment

Both the World Bank and IFC, in cooperation with the OECD and IMF, have supported improvements in governance of companies, building upon the OECD's Principles of Corporate Governance (2004, revised in 2015). A core instrument at the World Bank has been its Reports on the Observance of Standards and Codes for Corporate Governance (CG ROSCs). IFC's focus was on corporate boards of directors, the development of corporate governance scorecards but also, advice for regulators and small businesses.

IEG's evaluation focused on the ***influence*** of Bank Group work on countries' corporate governance. IEG measured changes in corporate governance in Bank Group client countries by undertaking comparative assessments of their corporate governance over time, using the CG ROSC yardstick, and assessed the extent to which such changes were associated with Bank Group interventions. IEG compared the ***timing and content*** of Bank Group interventions to see whether they reflected the diagnostics of the ROSCs—that is, to see whether they responded to known corporate governance issues in the countries concerned. Finally, IEG triangulated these

findings with information obtained from desk reviews, field visits, and interviews with Corporate Governance staff. IEG reviewed the full portfolio of corporate governance activities in all countries where there had been corporate governance–related activities. IEG's review (detailed in Appendix 6.2) found:

- Most client countries made progress in their corporate governance environments over the review period. Several did so on their own with limited support from the Bank Group after an initial diagnostic; slightly more than half may have benefitted from Bank Group support. Deterioration of corporate governance in some prominent Bank Group clients was likely owing to known external factors.
- In a majority of countries, the World Bank's ROSC assessments underpinned Bank Group corporate governance interventions, though in more than a third of countries both the World Bank and IFC had work programs for corporate governance that were seemingly unrelated to the assessment.
- Supplementary Bank Group support—lending or advisory—had partial success in in countries where corporate governance assessments were combined with other forms of World Bank interventions.
- Some areas of success were arguably easier to attain, for example, improvements in accounting and auditing, or independence of external auditors. Gains are noticeably fewer in difficult areas such as "disproportionate control disclosure" or "shareholders' rights to participate in fundamental decisions," as well as with respect to enforcement.
- Over the years, improved mutual awareness of World Bank and IFC corporate governance interventions is emerging, although there may be scope for more formal and systematic cooperation (see Appendix 6.2).

Securities Settlement Systems

Together with soft aspects of capital market infrastructure such as regulation and development, markets need the hard infrastructure of clearance, settlement, and depository systems, which are essential for securities trading to minimize risk and ensure efficient transactions.[117] They allow the exchange of any securities and the exchange of liquid funds to pay for them. These arrangements comprise not only technical means of transfer, but also the institutions, instruments, and standards that support such exchanges. Support for the building of payments and securities clearance and settlement infrastructure has been provided virtually exclusively by the World Bank.

Box 6.2 Securities Clearance and Settlement: Significant Early World Bank Work

Confidence in the clearance and settlement systems for securities is essential for market development. At the World Bank, De La Lastra, Guadamillas, and Holttinen (2000) documented clearance and settlements standards then available and the World Bank (2002) developed a methodology for assessing these systems. Guadamillas and Keppler (2002) describe settlement systems in a cross-section of Latin American countries. National payments systems, which allow financial institutions to transfer money efficiently, are also an important part of World Bank work. Listfield and Montes-Negret (1994) and Humphrey (1995) describe these systems and provide advice on their design. These matters are further explored by Bossone and Cirasino (2001), which reflects the Western Hemisphere Payments and Securities Clearance and Settlements Initiative, an effort led by the World Bank. Cirasino and Guadamillas (2004) offer advice on reforming payments and settlements systems. Lessons from the work performed by the World Bank, the IMF, and other international financial institutions on payments systems are summarized in World Bank (2006).

Source: IEG.

THE WORLD BANK'S REGIONAL AND GLOBAL ROLE: SETTING STANDARDS FOR PAYMENTS, CLEARANCE, AND SETTLEMENT

Regional Knowledge Building and Rollout

World Bank payments, clearance, and settlement initiatives in individual countries followed a successful regional rollout model, in partnership with regional regulators, and with foundations that preceded the evaluation period. Stage setting began with the Western Hemisphere Initiative (WHI) in Latin America at the end of the 1990s, which initiated multilateral exchanges on the need for modernization of payments, securities settlement, clearance, and depository arrangements to raise efficiency and protect against risks. The World Bank developed a standard diagnostic methodology that led to a series of assessments in 24 Latin American and Caribbean countries, followed typically by requests for fee-based services.[118] The WHI model was extended to other regions, within the evaluation period (Appendix 8.1): the Arab Payments and Securities Settlement Initiative (API), Commonwealth of Independent States Payments and Securities Settlement Initiative (CISPI), the South Asia Payments and Securities Settlement Initiative (SAPI), and the Pacific Payments, Remittances and Securities Settlement Initiative (PAPRI).[119] The Bank's biannual Global Payment Week, launched in 2006, is still undertaken jointly with its WHI partner the Center for Latin American Monetary Studies (CEMLA), and alternated, every other year, with a co-sponsored regional payments meeting.[120]

The sustained successive rollouts, the high demand for country-level work requested by regional finance ministers and central banks, the willingness to pay for services in many cases, and the institutionalized character of the regional fora established suggest a successful series of outcomes to these initiatives, from the point of view of use of convening power for sustained multi-region institution building. Further, the World Bank's biannual 150-country payments survey database is an institutionalized contribution to public knowledge. The World Bank prominently and consistently drew attention to the need for integration of issues relating to securities settlement systems within the overall payments framework; the global dialogue prior to this had been largely on interbank payments issues.[121]

Global Fora – Standard Setting and Core Principles

IEG independently undertook participant interviews to evaluate the convening power of the World Bank and its global contributions in the area of Payments and clearance, settlement, and depository systems (CSD). Numerous BIS documents, as well as market participants, refer to the role of the World Bank in the global dialogue around payments and securities clearance and settlement and the setting of standards that led eventually, to the formulation of the 2012 integrated Principles for Financial Market Infrastructure (**Error! Reference source not found.**). IEG's independent verification involved interviewing a range of senior persons external to the World Bank, who had also participated in these global fora at the BIS/Committee on Payment and Settlement Systems (CPSS)/IOSCO and witnessed and interacted with the World Bank payments team in this capacity. They included prominent figures in the payments and securities settlement area currently or formerly representing the BIS, G10 central banks, participant heads of the largest global payments networks, and participant members of securities and exchange commissions of both advanced and developing countries.

Box 6.3 Global Fora on Payments Systems: World Bank Participation

The International Organization of Securities Commissions (IOSCO) had separately developed the Objectives and Principles of Securities Regulation (IOSCO, 1998) while the Committee on Payment and Settlement Systems (CPSS) of the central banks of the G10 Countries produced the final version of the Core Principles for Systemically Important Payment Systems (BIS, 2001). Building on this, the CPSS and IOSCO jointly developed recommendations for securities settlement systems. Inputs from the IMF and the World Bank are acknowledged in the preamble to the CPSS-IOSCO consultative report (2001), finalized shortly thereafter. The World Bank subsequently participated in the 2004 standards-setting exercise around counterparty risk in payments systems.

In 2009, following the global crisis, the need for safe settlement for short-term notes boosting attention to the role of securities settlement and depositories. This led eventually to the preparation and issuance in 2012 of integrated Principles for Financial Markets Infrastructure, with 24 principles that cover systemically important payments systems, securities clearance, settlement and depository arrangements, central counterparties, and repositories for recording trades in certain derivatives. The World Bank remained engaged throughout in these standards-setting exercises, reflecting the perspectives of developing countries in a hitherto G10 dominated group. The role of the World Bank is noted in Bank for International Settlements documents on its Committee on Payments and Market Infrastructures (CPMI); its consultative Report on the CPSS-IOSCO principles: and its releases on the 2012 integrated Principles.

Sources: IEG, BIS.

Particularly favorable comments were received on the extent to which the World Bank represented emerging markets' viewpoints. Commentators point out that the World Bank was able to sensitize the BIS and former exclusively G10 participants to the concerns and positions of emerging market economies, as well as their likely reactions to specific draft principles. The "practitioners experience" of the World Bank with developing countries' perspectives was clearly acknowledged, as the World Bank had "talked to the market" in such countries. According to one commentator, the World Bank had made the standards relevant to a much wider world, providing guidance and taking a leadership role in discussions on their

interpretation and use in different jurisdictions. The World Bank also helped also with the adoption of standards, in the context of the FSAP assessments. Repeated mention was also made of the value of the Payments Week and other global workshops that helped bring together central banks, securities and exchange commissions, and persons representing clearing houses and settlement and depository institutions. These, together with the World Bank's diagnostic work and the surveys, helped identify gaps and implementation issues.

Nonetheless, dissenting commentators raised questions. One questioned the extent to which the World Bank had been an active or passive participant in the 2004 forum on central counterparties. Another raised a similar question with regard to the 2012 revision and synthesis of the financial infrastructure guidelines. However these commentators identified themselves as "occasional" rather than "core" participants. The World Bank is likely to remain important as a representative of the least developed countries.

PAYMENTS AND SECURITIES CLEARANCE AND SETTLEMENT: PROJECT-LEVEL PORTFOLIO REVIEW

IEG next undertook a portfolio analysis with focused category-building of the objectives, design and outcomes of World Bank work supporting payments and securities settlement systems in its client countries, based on the examination of a portfolio of 75 country-based projects (Appendix 6.4 and Table 6.5**Error! Reference source not found.**).[122] Few focused on securities settlement arrangements. In fact, out of the 75 interventions reviewed, only 30 were determined to have components with a focus on securities clearance and settlement, and further screening suggested just 10 with clearly specified securities settlement systems (SSS) or CSD elements. Forty five were focused on overall aspects of the national payment systems, or even broader overall financial system reform with embedded payments system components.[123] Almost half of the 75 had a large focus on retail payments.[124] There was also a significant focus on legal and regulatory aspects (two-thirds of projects).[125] Risk reduction was an important explicit objective especially associated with the establishment of real-time gross settlement (RTGS) systems (about half of all payment systems projects).[126]

Table 6.5 Securities Settlement Systems and the World Bank Payments System Portfolio (2004-2014)

	Total Projects Reviewed =75	Percentage of Total 75	Central or Major CSD=30	Percent of Central/Major 30	Core CSD projects =10	Percentage of core 10
To what extent was there some focus on payments systems and CSD?	56	75%	24	80%	9	90%
Was the main focus on retail payments?	34	45%	13	43%	1	10%
To what extent was the focus on the enabling legal and regulatory environment?	48	64%	18	60%	6	60%
To what extent was the focus on market conduct?	2	3%	0	0%	0	0%

	Total Projects Reviewed =75	Percentage of Total 75	Central or Major CSD=30	Percent of Central/Major 30	Core CSD projects =10	Percentage of core 10
To what extent was the focus on the reduction of specific areas of risk?	30	40%	21	70%	9	90%
To what extent was the focus on the installation of equipment and hardware?	25	33%	15	50%	4	40%
To what extent did the payments component specifically relate to securities clearance, settlement and depository arrangements	30	40%	30	100%	10	100%
If the focus was on securities, was it largely on government securities? (%CSD)	27	(36%)	26	87%	9	90%

Source: IEG Analysis.
Note: CSD=clearance, settlement, and deposit systems.

Elements on securities clearance and settlement tended to focus largely on arrangements for government securities (80 percent to 90 percent of such projects), reflecting limited private securities trading in many of these countries. Examples are Mozambique (2013), which clearly stated in its concept note that the project would support the government bond market. Similarly, the project in Rwanda (2008) financed an automated transaction platform in a market in which only one nongovernment security was ever issued. Exceptions, among the top 30, were the Financial Sector Monitoring and Technical Assistance project in Moldova (2012) which had a component on the share registry system reform and Syria's FIRST-financed Development of Damascus Securities Exchange in 2007.

A large number of World Bank interventions, both lending and advisory projects, focused on the installation of hardware for securities settlement systems. From the portfolio review, it is noted that 15 out of the 30 core projects, and four out of 10 core projects, made up these types of interventions. Overall, 25 out of the total 75 projects focused on the hardware infrastructure. Advisory services for hardware installation included Vietnam's Study for the Establishment of a Central Security Depository in 2007 and the Technical Assistance for Payment System Reform in Georgia in 2008, where the central bank was implementing a new settlement system that combined RTGS and public debt securities settlement systems.

Relevance to Capital Market Development: 30 Core Projects

Out of the 30 projects with a substantial focus on CSD, the majority—17 projects, including four "core" projects—did not make any reference to the nature of the country's securities markets in their project documents, reinforcing the observation that the general aim of these projects did not explicitly include capital market development, but rather, focused on the building of sound large value and retail payments systems. Some of the remainder provide good descriptions of their countries' securities markets, with a focus on government debt securities.[127] Eleven of the available project documents for the 30 did not mention the importance of the securities

settlement systems; three had only limited description of it. However in the cases of Georgia (Technical Assistance for Payment Systems Reform, FY'08) and Namibia (Securities Depository Project, FY15), the project documents describe how critical the securities settlement systems were for financial sector development in the economies.

In terms of the *relevance of design*, half the projects in the core 30 made reference to underlying diagnostics, especially FSAPs. In addition, 17 referred to a specific diagnostic for payments and CSD systems.[128] There was explicit alignment of the recommendations and follow-up in 16 out of 30 interventions.[129] However there was no FSAP preceding the intervention in Azerbaijan, Georgia, or Vietnam.

Box 6.4 Projects with Relevant Payments Elements – Results Achieved

Hardware installation in the payments area was successfully implemented with World Bank loans in Afghanistan, Azerbaijan, Ethiopia, and Rwanda; in others the recipients decided to use other financing because of cumbersome procurement processes at the World Bank. External factors such as security concerns in Yemen (FY14) caused the project's suspension. And the clearance, settlements, and deposit systems (CSD) feasibility study in Vietnam (FY07) might have been followed by a lending project to finance the system implementation, but the loan was apparently cancelled because of competition from the Asian Development Bank. In Georgia the World Bank assisted the procurement process of the real-time gross settlements system, which was eventually financed by USAID. These results suggest that the Bank's internal processes slowed down implementation, even when the Bank had the necessary expertise.

Impacts of *advisory services* are harder to measure. There is evidence, at least, of outputs with regard to the result of legal and regulatory development, in the area of payments and CSD. About a third of the 30 core interventions assisted the development or amendment of laws. The Capital Markets Modernization Project in Azerbaijan, approved in 2011, supported the drafting of the Law on Securities, and in the West Bank and Gaza the National Payment Systems Law was drafted with the World Bank's "Support to World Bank Group Payment Systems II" technical assistance (FY09).

Sources: World Bank Implementation Completion and Results Reports.

Implementation *results* were available for just nine out of the 30 core projects and these were self-evaluations by World Bank teams. These are, however, based on the project as a whole and not on its payments systems components alone, let alone on the securities settlement aspects. World Bank team self-evaluations rate its performance as "satisfactory" vis-à-vis internal work quality in seven, and indicate the successful achievement of some project outputs related to payments and securities settlement. The remaining two were self-rated "moderately satisfactory." Only two IEG ICRR ratings are available: the Kenya FLSTAP (FY04) and the Mozambique Financial Sector technical assistance (FY05). In the Kenya FLSTAP, the payments system components were alluded to as "surpassed;"they refer largely to electronic payments, an RTGS system, and the payments law, all of which contribute indirectly to better securities settlement. In Mozambique, the ICRR refers to the successful enhancement of financial infrastructure, alluding specifically to the RTGS system, and improved payments oversight, but does not make reference to the planned introduction of a Central Security Depository.

PAYMENTS AND SECURITIES CLEARANCE AND SETTLEMENT: COUNTRY-LEVEL ASSESSMENTS

IEG supplemented the product-level analysis above with a country-level review of interventions by a market expert, supplemented by interviews of task team leaders, and information from IEG's case studies. These broadly confirm the summary assessment above, while providing additional depth. They confirm the relevance of interventions in the area of payments systems, including those with a primarily RTGS focus, because such systems and their associated legal infrastructure and oversight support efficiency and lower risks for payments as well as clearance and settlement (Appendix 6.5).

The supplementary review also sheds light on the high focus on government securities. SSS and CSD capabilities are generally packaged together in modern RTGS systems. Second, they focus on the safe and efficient settlement of government securities, partly because these are important tools for money market operations and provide collateral for transactions among financial institutions themselves and with the central bank and thus help liquidity management and efficient implementation of monetary policy. This contributes to financial stability, and indirectly also supports capital market development. The interventions remain highly relevant as basic infrastructure for capital market development in the medium term, although this is not a primary objective.[130]

This review indicates that the World Bank adapted its interventions based on the level of market sophistication, from the basic installation of RTGS systems to the upgrading of such systems to improve their efficiency—Turkmenistan and Tajikistan are examples. Thus World Bank interventions in five Europe and Central Asia countries included the replacement of existing RTGS systems with new automated transfer systems (ATS) that have both RTGS and automated clearing house processing capabilities. This new generation of RTGS has added features of queueing of transfer orders and intraday liquidity facilities, resulting in more efficient use of liquidity for real-time settlement.

A few interventions were undertaken with some view to supportingcapital market development (Azerbaijan, Kenya, Mongolia); an even smaller number had a specific focus on strengthening certain aspects of capital markets (Turkey, Vietnam) or derivatives trading (Morocco). IEG reviews of available evidence on these, including interviews of task team leaders and clients, uniformly suggest good quality design, often referencing best international practice, but with mixed success in acceptance and implementation.

Box 6.5 World Bank Support for Payments and Securities Settlement Systems: Country Perspectives.

World Bank interventions in the **Dominican Republic** illustrate a long and successful engagement beginning with a core focus on the payments system, and, after 10 years, expanding to areas more relevant to securities, with a regulation focus. They began with a technical assistance loan in FY04 and continue to the present however with a reimbursable advisory services–financed technical assistance continuing into FY16. The Financial Sector Technical Assistance Loan (FSTAL) of

FY04 supported a comprehensive reform of the payments system, including the assistance to the central bank in acquiring a new real-time gross settlement (RTGS) system, establishing an appropriate legal framework and defining supervisory functions. Prior to the FSTAL, there had been no automated securities settlement system; all trades settled bilaterally through the exchange of underlying physical assets, and settlement risks were assumed by counterparties. The FSTAL financed an RTGS system, implemented in April 2008; supported the authorization of the national securities custodian CEVALDOM to enable the dematerialization of securities; helped draft new payment systems regulation which enabled the central bank to oversee the payment systems, and helped define a collateral system and concepts such as legal finality. One indicator of the usefulness of these interventions is that at the time of the FSAP in 2009, the RTGS system in the Dominican Republic either fully observed or broadly observed all 10 Committee on Payment and Settlement Systems (CPSS) Core Principles for Systemically Important Payment Systems. The same FSAP pointed out that whereas nongovernment debt securities were immobilized at the CEVALDOM, government and central bank bonds and bills were still settled via physical certificates. The recent RAS has provided technical assistance to the securities regulator in the drafting of a new securities law, especially regarding topics pertaining to custody, clearing and settlement, and establishing the regulator's oversight function with regard to financial infrastructure.

Kenya and **Azerbaijan** provide examples of payments and securities settlement interventions that had a more explicit focus on capital market development. In Kenya, the World Bank had mixed success with its two investment lending projects that included support for a securities clearance, settlement, and deposits system (CSD): the FLSTAP (FY05, closed) and the IFPPP (FY13, active.) Although the FLSTAP aimed to provide technical assistance and funding for the acquisition of a securities depository, slow World Bank procurement proved frustrating, and the government decided to finance this themselves. The World Bank, however, supported the backup site of the payment systems. The present project, the IFPPP, is focused on the rationalization of the two different CSDs in Kenya; one for government securities and another for nongovernment securities (corporate bonds, equities etc.) The former is managed by the Central Bank of Kenya and the latter, the Central Depository and Settlement Corporation (CDSC) is owned by the Nairobi Stock Exchange. Although the Bank has urged the CDSC to take over the capacity of the central bank system, the central bank remains concerned about inadequate capitalization and also about the ownership of the CDSC. (The Nairobi Stock Exchange has just been demutualized, and brokers still hold a significant amount of its equity). This experience underscores the sometimes complex political nature of ensuring sound decision making in this area. The consolidation of securities depositories was a frequent element of payments projects.

In **Azerbaijan**, as in Kenya, the World Bank sought to assist the consolidation of the National Depository Center, which held nongovernment securities and the Baku Stock Exchange,which acted as the depository for the treasury bills and central bank notes. Azerbaijan's Capital Markets Management Project aimed to establish a single independent CSD; however this has not so far been realized and related *infrastructure problems remain.*

Very few projects had explicit capital market development objectives, even when they included components such as securities clearance and depository arrangements. Turkey and Vietnam, however, provide examples. In **Turkey**, FSAP follow-up advisory services reviewed its fragmented CSD arrangements, spread across three entities. Its analysis and recommendation were principles-based, with reference to CPSS-IOSCO Recommendations for Securities Settlement Systems (RSSS) and subsequent updates. Its key recommendations were the establishment of central counterparties for government and nongovernment securities, consolidation of its CSDs, and improvement in the governance arrangements and transparency. However, there was little follow-up discussion with the government.

In **Vietnam**, a World Bank FIRST-funded Feasibility Study for Establishing a CSD in Vietnam (2007) provided a single CSD System Implementation plan for Vietnam's two exchanges; the HOSE (for blue chips) and the HNX (for small caps but also for government securities. The study also encompassed plans for an upgraded IT system. It was expected to feed into a proposed Financial Market Infrastructure Development Project (2010) but the project did not occur and the intended IT procurement did not take place. Nevertheless the single CSD role is well fulfilled by the Vietnam Securities Depository (VSD) today, which clears and settles all trades and acts as the central depository for equities, corporate bonds and government securities. Settlement follows international best practice. Onsite interviewees point out, however, that VSD began to assume its new role in 2005, two years prior to the project, when the newly formed entity was already taking over clearing, settlement, and ownership recordkeeping functions from the back offices of both exchanges. It is suggested that the role of the World Bank's technical assistance may have been to provide onsite consultation in parallel to reforms. The causal connections between the VSD's state of operation today and the contributions made by the project in 200708 are therefore unclear.
Source: IEG.

MARKET INFRASTRUCTURE: SECURITIES SETTLEMENT SYSTEMS - A SUMMARY OF FINDINGS

To conclude, World Bank contributions to market infrastructure in the form of securities settlement systems was important, yet infrequently an explicit objective. Typically the primary focus was the installation of sound and efficient payment systems that reduced systemic risk and increased efficiency, especially in terms of the legal framework, oversight, and RTGS systems, with associated clearing houses and depositories. To the extent that securities clearance and settlement was a focus, the emphasis was frequently on government and public securities, due to their use as collateral in intraday liquidity facilities, and not for capital market development per se; often reflecting client countries' limited financial market development. A few projects had a more explicit, if secondary, reference to capital market development.

Most projects were well designed, reflecting preceding diagnostic work, often through FIRST or FSAP recommendations. The World Bank was able to adjust intervention designs over time and across countries to maintain its relevance in different contexts. Long-term engagement was usual, often beginning with regional initiatives and diagnostics that later underpinned both policy-based and investment lending. But to the extent that projects involved the installation of hardware, World Bank processes were cumbersome and led to the loss of ground compared to other sources of finance. Documents provide limited evidence on outputs or outcomes; most but not all appear to have achieved desired outputs. It is difficult to capture outcomes such as risk reduction. Technical assistance and legal and regulatory advice were of good caliber, though the degree of uptake was sometimes unclear. Some topics occurred repeatedly: for example, the issue of consolidation of CSDs, or the pros and cons of RTGS upgrades. Efforts could be made to pull these experiences together across countries and to provide best practice or best fit guidance for new clients.

Overall, and taken in combination with the reviews in the preceding sections on the World Bank's global and regional roles, its overall contribution to the development of payments systems, as well as securities clearance, settlement, and depository arrangements was substantial. It played a pioneering role in promoting the modernization of payment systems, and associated securities CSDs since the late 1990s, and pointed out the need to bring emerging and developed countries onto the same footing. These important infrastructure elements enable efficient and sound government securities trading, liquidity management, the smooth functioning of money markets, and implementation of monetary policy. the World Bank's approach and processes have been multipronged and have drawn upon multiple funding sources: FIRST and other trust funds, FSAPs, and reimbursable advisory services. Efforts began from regional surveys, leading to awareness of gaps illustrated in country-level diagnostics. Country interventions for reforms followed, which created momentum for peer learning and the cross-fertilization of ideas. The World Bank itself gained knowledge and experience, which

formed the basis of its work with standard setters. And through the FSAPs and technical notes, the World Bank was a key implementer of standards.

7. Real Sector Support: Infrastructure Finance and the Environment

Highlights

- Support to **infrastructure finance** has grown in importance at the World Bank Group, yet support through capital markets instruments has been limited; typically support is embedded within a wider framework of financial market development, or infrastructure finance.
- The Bank Group's ESMID and, now, Deep Dive programs illustrate the complex range of market development actions needed to support infrastructure bond issues and structured finance arrangements.
- Bank support is increasingly extended within the framework of broader infrastructure finance arrangements, such as public-private partnerships, which can provide a contractual umbrella that can help insulate against the inherent risks of greenfield projects.
- The Bank Group's guarantee instruments have provided support for infrastructure finance, though rarely, recently, through bond enhancements. However, guarantees on commercial loans also serve to crowd in equity investors, as well as project bond issues, in a structured finance transaction.
- Support to sectors such as the **environment** through the Bank Group's Green Bonds were embedded within overall Bank Group funding arrangements. The Bank Group's issuance is modest in global terms, though it has played an important convening role with regard to the Green Bond principles. Other theme bonds are similarly structured.
- The Bank Group has also fostered some innovative bond issuance; such as its catastrophic risk bond and the *sukuk*. Vaccine bond.

The preceding sections looked at the extent to which the Bank Group helped *client countries* to develop their capital markets, through the creation of sound practice for issuers and investors, and the installation of sound capital market infrastructure; the present section looks at the extent to which the Bank Group itself supported the use of capital markets instruments in its *own* real sector operations. Beyond support for financial resource allocation and price discovery, capital markets matter because of their potential support for economic development in real sectors. The present chapter focuses on one core area of the real sector—infrastructure—and examines the extent to which the Bank Group made use of capital markets instruments to support the financing of infrastructure. Possible vehicles are IFC purchases of bonds to support infrastructure finance issued by investee companies; IFC or World Bank credit enhancements for project bonds; or indirectly through crowding-in better financing terms for projects. The Bank Group also supports clients' access to capital markets through advisory work, whether to provide an enabling environment, or through hands-on support for the structuring of individual transactions.

Further, Bank Group Treasuries have issued bonds to support various Bank Group real sector priority areas: the environment, inclusive finance, or by structuring of bonds for vaccine finance

or to protect against catastrophic risk. These are summarized briefly at the end of the chapter and detailed in Appendix 7.5.

Supporting Infrastructure Finance through Capital Markets Instruments

Mobilizing resources for infrastructure finance has received increasing emphasis as a key priority for the Bank Group throughout the review period of this evaluation, as noted in a series of strategy statements, and at international fora (G20, the Addis Ababa Action Agenda) and in the 2015 Global Financial Development Report, reflecting increasing awareness of infrastructure financing gaps.[131] The Bank Group's infrastructure financing strategy for FY12–15 mentions the need for support to capital market development as one element along the spectrum of public-private partnership activities.

Box 7.1 Project Bonds and Infrastructure Finance

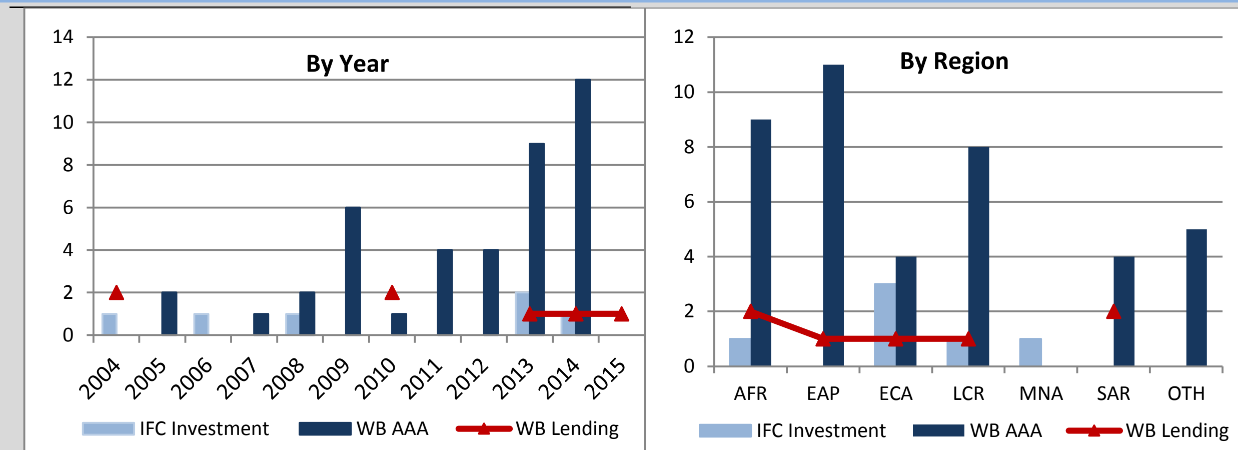
Project bonds allow borrowers to access a capital market investor base, attract another pool of liquidity that could complement—and for some projects fully replace—bank funding and, for projects with a long economic life, obtain longer tenors than available in the bank market. Project finance and infrastructure assets, with their long-dated tenors, flexible structures, contractual framework, and cash flows, lend themselves well to fixed-income investors and in particular "real money" investors, such as pension funds and insurances with long-term liabilities structures. Fixed-income investors are keen to increase their allocations to long-dated assets as they search for returns in the current low-interest-rate environment. For borrowers, project bonds could help diversify away from the historical reliance on banks as a sole source of funding. The capital markets' deep investor base and wide geographical spread also reduces reliance on investors from one single country. Whereas historically the U.S. dollar Qualified Institutional Investor (the so called section 144a) base was the only market for long-dated bonds, Southern European and Asian investors have become much more important in recent years and have shown an increased appetite for longer tenors. Yet today, project bonds, widespread in advanced economies, remain relatively rare in emerging market economies.

Source: IEG.

IEG Portfolio Review

Fifty-four Bank Group operational interventions were identified as having a reference, in terms of capital markets areas, to the use of capital markets instruments in infrastructure finance. These are defined here to include the power sector, water, transport, and urban infrastructure.[132] These interventions included 46 World Bank AAA, seven lending projects supported by the World Bank, and six IFC investment projects that involved both securities and infrastructure development. At first, the list appears small. However, the portfolio below does not include World Bank or IFC advisory projects that were *primarily* focused on other areas of capital markets, but may also have had an infrastructure finance development element. Important programs under the ESMID and the Deep Dive are discussed in the chapter on bond market contributions; they did not include flags for infrastructure finance.

Figure 5 Bank Group Infrastructure Interventions and Capital Markets Related Financing (FY04-14)



Source: IEG analysis.

INFRASTRUCTURE FINANCE AND CAPITAL MARKETS INSTRUMENTS - WORLD BANK

Only seven World Bank *lending projects*, listed below, explicitly referred to the use of capital markets for infrastructure financing, typically through investment or technical assistance loans (Appendix Table A7.1). Typically, they provide or have provided support for the development of regulatory frameworks for long-term financing for infrastructure projects, with a broad-based focus, often including public-private partnership structures or concession agreements and sometimes with an embedded capital market element. Such limited direct support toward mobilizing capital market funding, reflects the nature of World Bank instruments. Bank loans and credits are extended to governments and not for project finance; hence, they are not appropriate vehicles for providing direct support for capital market transactions.

Box 7.2 World Bank Infrastructure Lending: Support for the Use of Capital Markets Instruments

An early project, the West African Economic and Monetary Union (WAEMU) project in West Africa (2004), was structured to support capital market development, and to enhance capital mobilization for infrastructure through technical assistance, a line of credit, and a guarantee facility. When the project closed in 2011, the regional regulatory framework for select aspects of capital market development improved and corporate bond issues increased, though attribution is difficult. In terms of direct support to infrastructure building, several road subprojects and one port subproject were financed, but from the line-of-credit component, and not through market-based finance. There are no references to new bond issues for these infrastructure projects. The guarantee facility was cancelled at midterm restructuring owing to the lack of well-structured subprojects. The operation was rated moderately unsatisfactory. Finally, there is one development policy loan in this cluster; however it is difficult to attribute DPL conditionality to specific instances of real sector projects.

The ongoing Kenya adaptable loan program provides a good example of overall support to infrastructure finance, with some reference to capital markets instruments. It had a primary focus on the establishment of an enabling framework for public-private partnership (PPP) financing, together with broad-based support for structuring an initial cluster of six PPP projects,

which are all in the infrastructure area. However, the project also included, in its design, support for the management of financial instruments to be ultimately used, including the development of an offering regime, primary and secondary markets, upgrading of regulations on securitization under the Capital Markets Authority, and on the institutional investor side, the parallel revision of insurance and pension fund investment regulations. The project envisages the use of limited recourse debt financing and discusses the pros and cons of domestic vs foreign currency denomination; however, in an overall financing structure - bond issues are only one option in such contracts.

Another recent and still active World Bank–provided US$300 million loan to Peru (Lima Metro 2) helped finance government contributions to a privately owned and operated metro concession. Although not specifically designated as a capital markets development or support operation, the financing plan for the project envisaged the mobilization of funds from the capital market, and the project company placed bonds worth US$1.2 billion in the U.S. capital markets. The World Bank and other multilateral agencies augmented the government's overall financing support to the project, and consequentially added to its perceived robustness, thus contributing to its favorable bond rating and good market response. The World Bank also provided technical support to the government, which contributed to the development of a bankable structure and issuance of a project bond.

Less positively, the World Bank loan to the India Infrastructure Finance Company Limited (IIFCL), an IBRD loan of US$1.195 billion approved in 2009, and also still active, was intended to increase the long-term financing for infrastructure PPPs in India. The inclusion of a capital markets code in the project's classification likely reflected the initial expectation that the PPPs thus funded would tap capital markets for funding. The loan has been largely cancelled because of shortfalls in project design and mismatches between government and World Bank safeguard policies. Although India financed a large number of PPPs during this period, the impact of this specific project on the PPP program in India and on capital markets development has been negligible.

Source: IEG.

Despite necessarily limited direct transactional support, World Bank presence or support to the government helped project entities to issue their own paper (Lima metro; Kenya), through support to the enabling environments, often in a broad-based framework that sought to increase public private partnerships in infrastructure finance. In addition, the World Bank offered advisory services on mobilizing resources for infrastructure through project bonds, at both the global and country level. [133] At a country level however, in about half the identified portfolio of AAA projects, there was limited focus on the specific theme of capital market instruments for infrastructure, aiming typically at improving regulations related to increasing the use of public-private partnerships and infrastructure financing in general. Although 41 AAA interventions were identified as providing assistance to enhance capital market financing for infrastructure (Appendix Table A7.2), on closer examination, 11 focused primarily on public-private partnerships.[134] Thirteen focused on vehicles for the financing of urban infrastructure, housing finance, and miscellaneous issues.[135] Five projects focused on policy and regulation, and another nine on broad-based issues of market development. Three looked at country-specific and subregional infrastructure funds.

Four policy studies embedded issues relevant to the development of capital markets for infrastructure within the context of a review of overall financial sector development, or overall capital market development. These included an AAA activity in Turkey as well as in Uruguay, Costa Rica, and the Caucasus. The project in Turkey focused on capacity building at government and supervisory agencies. A significant recent effort in providing support for

overall capital market development, with an embedded component for infrastructure finance, was a 2014 FIRST funded study in Costa Rica. This broad-based work included a review of regulations for the use of capital markets for infrastructure finance, to help establish the right balance between flexibility on the structuring side and investor protection on the other.[136]

In three cases the policy notes prepared explicitly discussed capital markets in the context of infrastructure development—a second project in Turkey (identifying regulatory and structural constraints to deepening financial markets, with a focus on the investment funds industry; support for drafting secondary legislation for the Capital Markets Law); Colombia (advice on the design and implementation of an infrastructure equity fund program to promote domestic and international pension funds to invest in Colombia's infrastructure sector) and the Common Market for Eastern and Southern Africa (COMESA) study in Africa on the design and management of an infrastructure fund. Support for local government and project bond issuance and was also made available to subnational entities in Indonesia (two interventions), to raise funds for infrastructure development.[137] Though not included in the portfolio above, it is noteworthy that in 2015, an application was prepared for a FIRST-funded advisory intervention in El Salvador that aimed at utilizing capital markets to finance infrastructure investments—specifically, to address the protracted issuance framework, develop alternative issuance channels such as private placements and hybrid offers, strengthen the supervision of intermediaries in terms of offering and distribution practices, and improve the pricing and liquidity of nongovernment bonds.

Thus most of the advisory activities with direct relevance to both capital markets and infrastructure development occurred in the context of support for public-private partnerships—for example the two regional projects in Africa as well as one in Kenya, largely for the assessment of potential investor interest, the diagnosis of constraints, and the development of modalities to manage early-stage financing (feasibility, construction. and commissioning phases). Efforts were made to link significant sources of long-term capital (sovereign wealth funds, pension funds, equity funds, and insurance institutions) to project finance. Bond issuance, ratings, and credit enhancements formed a part of the agenda.

Perhaps the most relevant cluster of recent advisory efforts of the Bank Group for infrastructure finance and capital market instruments is associated with the ESMID and Deep Dive programs. The IFC/World Bank Global Capital Markets (GCM) group has worked jointly with regional units in the ESMID programs, and are currently engaged in an associated new program; the Deep Dive. Typically these tasks did not incorporate infrastructure codes or flags, because this was a relatively small, albeit significant element of the overall program. ESMID focused specifically on nongovernment bond markets, with the explicit intention of supporting governments from the overall regulatory framework to support for individual bond issues. As their *primary* focus was on the overall private bond market development environment, both in

individual countries and in regional clusters, these projects have been coded to, and discussed in, the bond market cluster in the present evaluation. It is nevertheless interesting to review their contributions to infrastructure finance though capital market instruments.

ESMID *East Africa* intended to support six identified transactions in the areas of transport, water, and housing development, but none had come to the market by 2015.[138] However, the Project Completion Report points out that at least US$48 million worth of bond transactions were brought to market with ESMID support, and regulatory approvals were secured for US$99 million worth of bond issues.[139] Nevertheless, the project's contributions to developing the legal and regulatory infrastructure for corporate bond issuance, improvements in efficiency and reductions in time and support to smooth constraints, was impressive. These upstream successes have been instrumental in providing support to successor projects, such as the ongoing Kenya public-private partnership project, discussed above, which is now supporting a series of highway projects, with the potential for use of capital markets financing.[140] Though ESMID's intention from the start was to mobilize capital markets so as to finance real economy projects, the reality of the macro situation and public debt management implied that reforms for the latter had to be undertaken in tandem for successful development of the nongovernment bond market.

ESMID Latin America (also discussed in Chapter 2) had similar program goals: improved legal and regulatory frameworks for nongovernment bonds and increased issuance and investment in the nongovernment bond segment in Colombia and Peru, especially in the priority sectors of infrastructure and housing. Although the program provided assistance on regulatory fronts, improved financing conditions, and improved investability for institutional investors, challenges remain, including the need for systematic consensus building, continued competition from banks, and long lead times for transactions to come to market. The external evaluators and Bank Group staff concluded that such challenges could be tackled by the Deep Dive initiative, a successor to ESMID on an even broader scale, piloted in Colombia and elsewhere in late 2013.[141]

The multisector and multidisciplinary Deep Dive approach has perhaps the clearest focus on infrastructure finance so far. In Colombia, it seeks to leverage resources across nine units of the Bank Group to help Colombia use capital markets to finance large-scale strategic development needs, especially including infrastructure, within a broad public-private partnership framework. The Deep Dive may be the next step forward after programs such as ESMID, which while far-reaching, were not cross-sectoral. Infrastructure finance is now the central focus of the Deep Dive in Colombia, where the program is assisting Colombia build its bond markets to finance a $25 billion 'fourth generation' (4G) toll road program. IFC is an advisor to the national Infrastructure Agency (ANI) and the Bank Group project includes a range of advisory services to support infrastructure bonds as well as a $70 million IFC investment in Financiera de Desarrollo Nacional (FDN), the domestic infrastructure development bank which is the new

financing vehicle established by the government for these transactions. Institutionally, the project has enjoyed unique advantages, given the close links between Bank Group staff and Colombian authorities. For all these reasons it is difficult to comment on the replicability of this approach, though at least partial demonstration of results is indicated. By the end of 2015, negotiations for concessionaires for 17 projects were under way. And in early 2016, financial closure on one project was announced.[142]

IEG also reviewed the extent to which World Bank guarantees may have supported the use of market-based infrastructure finance. Although World Bank sovereign lending is not a suitable instrument for supporting project finance, World Bank guarantees directly offer enhancements that can support bond issuance as well as the mobilization of equity. If debt guarantees are extended to bonds, they directly support the bond issuer, by enhancing the rating of the bond, and expanding the group of eligible investors. More typically, guarantees may be offered on any part of the financing, and may crowd in a range of additional investments in the form of equity or loans. While bond guarantees are the most directly relevant for capital market instruments and infrastructure finance, IEG also explores the extent to which Bank Group guarantees have helped to provide indirect support to relevant projects, crowding in equity financing.[143]

World Bank guarantees were in fact used largely to support infrastructure projects. Over the entire period 1994-2015, the World Bank provided guarantees for 55 projects; of these 42 were for infrastructure (Appendix Tables A7.3 and A7.4).[144] Within the evaluation period, 34 guarantees were approved, of which 29 were for infrastructure (FY04 to FY15). In terms of instrument type, however, support in the form of *guarantees of bond instrument*s were extended to only four infrastructure projects - and all four occurred before the reference period for this evaluation.[145] Three other bond guarantees were extended by the World Bank, though not for infrastructure projects; these also fall outside the period of evaluation. The bulk of the infrastructure guarantees (and all those within the evaluation period) were extended for commercial loans.

Box 7.3 World Bank–Supported Project, Corporate, and Sovereign Bonds for Infrastructure Finance

All 29 World Bank guarantees for infrastructure, extended during the period FY04 to FY15, except one, supported the energy sector, and within the energy sector, primarily, new private investments in electricity. Many enhancements were provided in the countries where it was the most difficult to mobilize private capital: 21 guarantees supported projects in sub-Saharan Africa. Although these guarantees were for commercial loans, they eased access to all forms of market-based finance.

These projects also illustrate the difficulty of isolating capital market finance elements, when project sponsors and investors look at the overall structure of public and private finance. Thus in the case of the DASU Hydropower project for example, (FY14, Pakistan), domestic and international capital markets were approached, for the issue of bonds and project loans, with the support of World Bank project guarantees, given the World Bank guarantee on the commercial loans for the project. Four independent power plants in Kenya (2012) achieved financial closure with the help of World Bank guarantees, attracting

additional private capital. Other cases of indirect support to bond market infrastructure finance exist, through structured finance arrangements, which are not included in the guarantee list, for example, loans to Jamaica for the Rockfort power project that enabled the project to issue its own bonds, backstopped by loans from the World Bank and the Inter-American Development Bank (IDB). However, in the Morupule B power project in Botswana (2009) the World Bank guarantee support made the project more economically viable through obtaining better terms (including longer tenor) from commercial lenders—although no private equity was mobilized. Often, as in Kenya, World Bank support led to similar subsequent transactions proceeding without its support.

In relatively few instances, World Bank support has been used to structure securities for projects, corporates, and sovereigns thereby enabling access to institutional capital at critical junctures under difficult market conditions. All these occurred outside the review period but provide examples of structures which could be replicated to raise resources from the capital markets.

- Philippines – National Power Corporation – 1994 - World Bank guarantee for a 10-year-maturity US$100 million bond issue.
- Jordan – Telecommunication Corporation -1995 – World Bank guarantee for a seven-year US$50 million bond
- Thailand –Electricity Generating Authority of Thailand -1998- World Bank Guarantee for 10-year bonds for US$300 million
- Argentina (Sovereign) - 1999 – Six series of zero coupon notes of US$250 million each with maturities of one to five years backed by a World Bank guarantee. Gross proceeds – US$1.165 billion.
- Colombia (Sovereign) -2001 – 10-year notes issued in two tranches amounting to US$1 billion backed by a World Bank guarantee.

Catalyst role of the WB:

- Jamaica – Rockfort Power Project – 1994 - US$81million mobilized through five-year Caribbean Basin Projects Financing Authority (CARIFA) bonds issued by the project entity, in Puerto Rico, backed by a joint take out financing commitment from the World Bank and IDB.
- Ghana (Sovereign)-2015 – 15-year bonds for US$1 billion with a World Bank (IDA) guarantee.

Sources: IEG; Sutherland (1998) Financing Jamaica's Rockfort Independent Power Project.

INFRASTRUCTURE FINANCE AND CAPITAL MARKETS INSTRUMENTS – IFC

Of the 152 IFC projects that used capital markets instruments over the period 2004–14, 18 supported infrastructure. Support in the form of bond purchases, or bond guarantees, was extended to only six projects (Appendix Table A7.5), where IFC's role was identified as providing additional "comfort" to investors in order to mobilize funding.

Box 7.4 MIGA Guarantees for Bond Instruments and Guarantees for Infrastructure

Although MIGA has issued a number of guarantees in support of capital markets instruments, it was excluded from the scope of the present evaluation at the Approach Paper stage, primarily to contain its scope. MIGA has also been active in the area of infrastructure finance. MIGA has traditionally provided political risk insurance to private sector investors and lenders and has in recent years expanded its range of products to offer coverage against the risk of non-honoring of financial obligations by a sovereign or sub-sovereign government entity or a state-owned enterprise. MIGA has been the subject of a comprehensive recent IEG evaluation (MIGA's Financial Sector Guarantees in a Strategic Context (IEG, 2011)).

MIGA's six capital market projects compare to 15 at IFC and none at the World Bank over the evaluation period. Four of MIGA's six projects were in FY04–08, prior to the global financial crisis. During FY09–14, MIGA's involvement in support of capital market transactions consisted mainly of offerings of its new coverage for the non-honoring of financial obligations. The credit enhancement triggered by MIGA's participation in the structure, either by providing political risk insurance or a non-honoring of financial obligations guarantee, involved easier overall access to capital. Over the 10-year period reviewed, MIGA issued guarantees in support of the following six capital markets transactions:

- $10.1 million (2005) to the parent company of a Latvian mortgage company to protect against transfer restrictions and expropriation of funds related to an investment in *a mortgage-backed securitization*.
- $66.5 million guarantee (2005) to cover the risks of transfer restrictions and expropriation on parent funding for *a local currency securitization of trade receivable*s by a bank in Brazil.
- $107.6 million (2006) in political risk insurance covering an *international bond issue* by a highway authority in the Dominican Republic.
- $10.2 million (2007) and $75 million (2006) guarantees against transfer and convertibility restrictions on investments made in *securitized portfolios of residential mortgages* originated in Kazakhstan (two guarantees)
- $99 million (2012) to support a cross-currency swap agreement between the government of Senegal and an international bank against non-honoring of sovereign obligations. That swap agreement hedged the currency exposure of the government related to a $500 million bond issued in 2011.
- $575 million in 2014 against the risk of non-honoring of sovereign obligations by the Hungarian Export-Import bank, on its *offshore notes issues*.

The gross coverage for these capital markets projects totals $948 million, of which $575 million, in two separate structured tranches, was for the non-honoring of sovereign financial obligations guarantee issued in 2013 in support of Hungary's Export-Import Bank. These operations represent 4.6 percent of total MIGA guarantees issued over this period - but just 1.8 percent if we exclude the guarantee issued in 2013 in support of Hungary's Export-Import Bank.

Looking beyond guarantees in support of capital market instruments, on the argument that risk mitigation in the form of guarantees has helped to crowd in capital on better terms overall, MIGA has been very active in infrastructure. Of the 360 MIGA guarantees issued over the evaluation period 103 were in the infrastructure sector. With 27 out of the 35 World Bank guarantees, the World Bank also focused heavily on infrastructure, while 12 of IFC's 80 guarantees supported infrastructure projects, because a large proportion of IFC's guarantees (45 out of 80) were in the financial sector.

Source: Appendix Table A7.6

Two bond sub-sovereign or municipal guarantee projects in IFC's portfolio enabled these entities to enhance the terms of their infrastructure finance bonds:the Chuvash Republic of the Russian Federation and the City of Johannesburg (CoJ) in South Africa. In the former, IFC's local currency guarantee for the government's bond issues enabled the Republic to obtain a higher rating and a longer maturity bond than had been possible in the past. In South Africa, a similar guarantee for the City of Johannesburg's municipal bond issue enabled it to considerably extend its maturity, refinancing high-cost bank debt, and securing long-term financing for infrastructure projects.[146]

IEG also reviewed IFC's loan guarantees and performance bonds, and found that a small minority crowded in fresh equity but all helped support enhanced overall financing terms. Of the remaining 12 projects with the use of "capital markets instruments" for infrastructure finance, nine were loan guarantees and three were performance bonds (Appendix 7.3). In virtually all cases, these enhancements led to greater volumes or better terms of other finance, and in two instances there was equity investment by the sponsor, though project documents attribute additionality in only one instance (South Africa, Hernic BEE).

Box 7.5 IFC: Infrastructure Support Through Bond Purchases

In the Peru liquified natural gas (LNG) project, there was an equity investment prior to IFC's disbursement of Senior Credit Facilities. Although there was no direct linkage to IFC's intervention, it can be argued that IFC's presence was an encouragement. In a project in Brazil, IFC financed the purchase of the company's debut Eurobond for up to US$50 million. The lead manager emphasized that IFC's role as anchor investor mobilized other investors, leading to the successful debut issue of greater than US$300 million. In MENA, for the Renaissance MCB project, IFC provided financing through a quasi-equity investment of up to US$30 million in mandatory convertible bonds. According to the board paper for this active project, IFC's investment helped this South-South project to successfully close the financing plan which it could not complete through an issue of bonds on a rights basis in July 2012. IFC's participation provided comfort to both existing investors and potential investors as the company seeks funding in the future.

IFC also financed the Mersian International Port in **Turkey**. As per the board document, the company's Eurobond was the first international single-asset infrastructure bond issued by a corporate in Turkey. Since institutional investors remain selective, displaying a strong preference for blue-chip issuers long international credit histories. IFC's participation in this offering served as a strong vote of confidence at a time when European banking markets were still recovering from the sovereign debt crisis.

Source: IEG.

Overall, findings significantly reflect the different roles and instruments at the disposal of the World Bank and IFC. IFC successfully supported six transactions during the review period through bond purchases and bond guarantees. The Bank Group's advisory programs strengthened the enabling environment and offered transactional support. The World Bank's guarantee program, though offering direct support for bond enhancements in the past, has of late focused largely on overall risk mitigation, with 29 projects for infrastructure finance over the evaluation period. Many served to crowd in equity or encourage project bond issues. The Bank Group meanwhile is moving toward a more holistic public-private partnership approach to infrastructure finance, which can provide contractual protections to investors in infrastructure projects.

Green Bonds and Theme Bonds

Demand for green bonds and environmentally friendly investment opportunities increased after 2000, following the Montreal Protocol, and the adoption of the UN Principles for Responsible Investing (PRI) (see Appendix 7.5 for details). The European Investment Bank (EIB) was the first multilateral development bank (MDB) to issue a Climate Awareness Bond (CAB), in 2007, introducing a core underlying concept—a structured product linked to an equity index which ring-fenced the use of proceeds to underlying Bank Group portfolios of environment lending and investment. IBRD (2008) and IFC (2010) each began to issue "green" labelled plain vanilla bonds, ring fencing proceeds to match disbursement of their respective climate change portfolios, mobilizing nearly $12.7 billion over 2010–15. Bank Group green labeled bonds enabled its plain vanilla debt instruments to meet the demand for socially responsible investors (SRI) who were looking to meet their compliance requirements without taking on screening or

additional risks. Other issuers entered the market as investor interest grew, and by 2014 aggregate Bank Group annual issues were only about 10 percent of total green bond issuance in the global marketplace. The most significant contribution of the Bank Group has perhaps been its key convening role in bringing together stakeholders to agree to a general framework for such issues, now known as the Green Bond Principles (GBP).

Treasury departments of both IBRD and IFC also began to undertake bond issues to support other Bank Group priority areas, notably IFC's Banking on Women and Inclusive Business bonds **(Appendix 7.5)**. All such Bank Group thematic bonds ring fence relevant areas of the portfolio, attracting new investors and diversifying the Bank Group funding base. Although there is no obvious additionality in funding obtained, the Bank Group's greatest contribution lay in fostering development of this new segment of debt capital markets.

In addition, IBRD Treasury has played a significant advisory and managerial role in assisting the 'vaccine' bonds issued by the International Finance Facility for Immunization. IBRD helped develop the catastrophe bond (CAT), which allows entities that are exposed to natural-disaster risk, such as insurance companies, to transfer a portion of that risk to bond investors. In 2009, IBRD created a MultiCat Program which the World Bank acted as arranger, allowing clients to sponsor catastrophe bonds using a common documentation platform; and in 2014 IBRD created the Capital-at-Risk-Note Program which allowed it to issue bonds supported by the strength of its own balance sheet.

Real Sector Support at the Bank Group and Capital Markets Instruments - A Summary:

Although the Bank Group supported the increased provision of infrastructure finance in client countries, its specific focus on project bonds and bond guarantees has been declining, partly reflecting a more holistic, public-private partnership–based approach. Support for the development of capital markets–based infrastructure finance has been the most evident, in recent years, in the broad-based bond market advisory services of the Bank Group, notably the ESMID and, more recently, the Deep Dive programmatic initiatives, that try to bring together the multiple elements of bond market development, institutional investor involvement, and the creation of public-private partnership frameworks, to support project finance with capital market involvement, with partial success.

Perhaps the most direct support that the Bank Group can offer is through its guarantees and credit enhancements for infrastructure finance arrangements. In this complex realm of structured finance it is not obvious that Bank Group purchases of bonds, or guarantees of bonds, are the only capital market–enhancing forms of support; risk mitigation in the form of loan guarantees has the same capacity to crowd in other forms of finance, and at better terms. In

some transactions Bank Group loan guarantees can enable project entities to issue their own bonds. Because the credit enhancement needed in some case can be substantial, the feasibility of such an approach is largely dependent on the quality of underlying assets.

The IEG evaluation of Bank Group guarantees instruments (2009) also shows that such guarantees have helped public agencies tap bond markets for better terms than they would have received without guarantees. Most public agencies that accessed capital markets under the partial credit guarantees (PCGs) subsequently accessed commercial markets again, without guarantees. In Jordan, the PCG helped the telecom utility become the first Middle Eastern corporation to tap the Eurobond market. The Jordan operation also involved the participation of the local capital market, facilitating mobilization of domestic foreign exchange deposits. It also points to the early guarantees provided for Colombia (2001) which enabled Colombia to reestablish access to U.S. capital markets at a time when investor interest was minimal. In Argentina (1999), although the country was able to access non-U.S. capital markets at similar terms, the PCG enabled it to issue a significantly larger bond ($1.2 billion) than would otherwise have been possible at the time.

It is puzzling that there has been such a noticeable decline in the offer of bond guarantees over the past decade, from the World Bank in particular. This may be a reflection of the prevailing difficulties with project finance in the wake of the crisis, and it may also reflect the move toward a more holistic public-private partnership–based approach to infrastructure finance. The emphasis on use of public-private partnership and limited recourse financing to create new infrastructure assets has enabled the mobilization of private equity, primarily because these structures (generally through a contractual framework and credit enhancements) insulate the project’s revenue stream from risks which the private sector is unable to bear or mitigate. These structures have enabled the funding even of greenfield projects because construction risk is managed within the contractual framework, and commercial banks and equity do not need the project to achieve a threshold rating. The Bank Group has contributed to this trend by providing technical assistance, financing and risk mitigation. The increased use of such structures for infrastructure development is expected to continue, wherever feasible. Meanwhile, the Bank Group can also explore structures that are being used by other IFIs, for example the EIB’s Infrastructure Bonds, which provide a replicable model (Appendix 7.4).

Longer-term market factors remain a factor for project bonds. Project risk profiles (especially for construction risk) are not conducive to credit ratings that would be acceptable to institutional investors. Cross-border risks remain. Mobilizing long-term funding from capital markets internationally and locally is affected not only by the inherent structure of projects and whether they have acceptable credit, but also by macroeconomic stability, regulatory frameworks, and contract enforcement capability. Though desirable, project bonds are unlikely to be a large source of infrastructure financing especially for greenfield projects.

8. Sustainability, Quality, Monitoring, and Coordination

Highlights

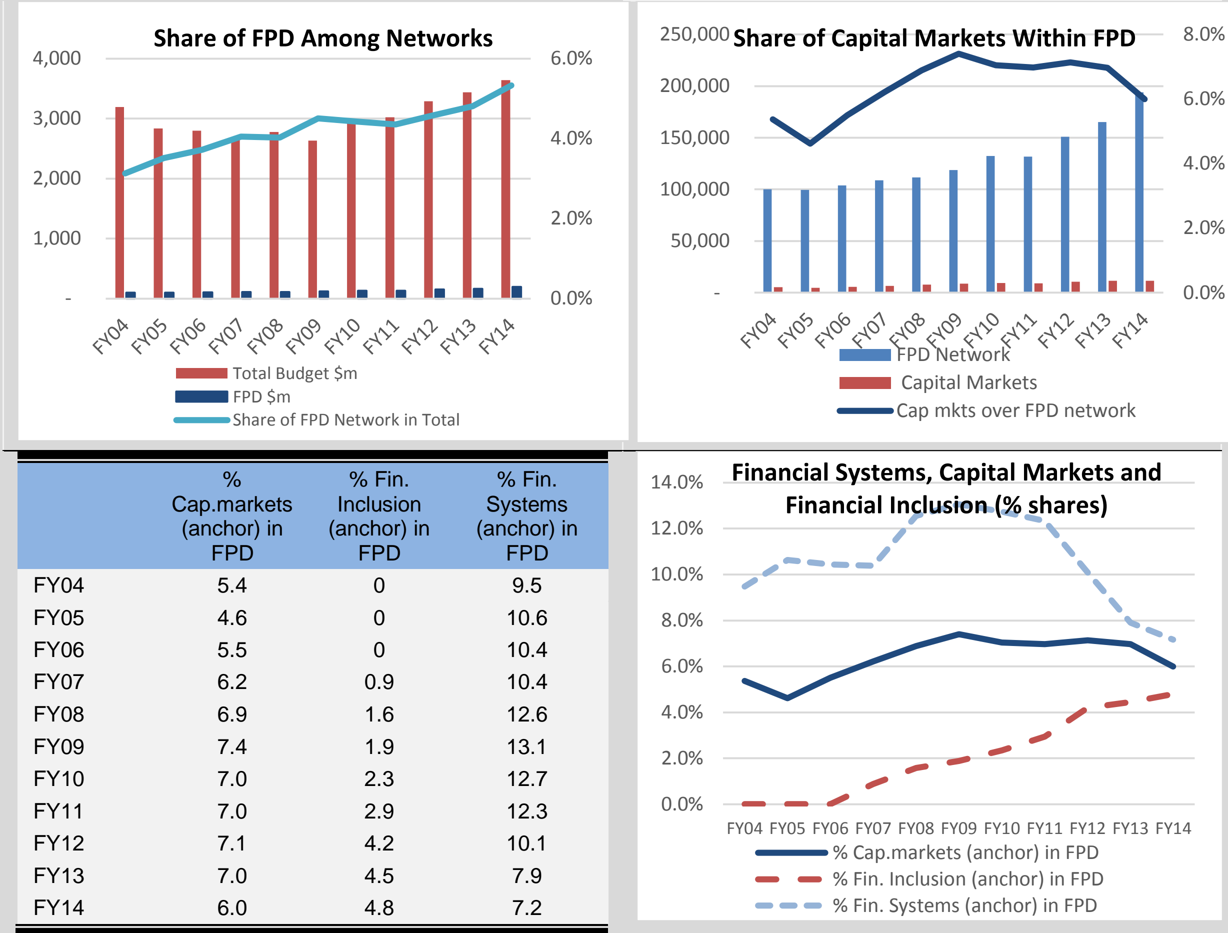
- The future coherence and sustainability of capital markets work requires stable funding. The Finance and Private Sector Development network (FPD) has experienced a rising proportion of externally financed funding.
- The program has been significantly self-sustaining, and has won the support of donors. But its funding model could have contributed to its opportunistic engagement. Future vulnerability could be an issue.
- Donor support was particularly high for bond market development, especially for the ESMID program and for capital market regulation and development, through the FIRST trust fund.
- Conventional assessments of development impact of such an intensively knowledge-based program is hampered not only by extremely limited evaluative evidence, but also by failure to maintain and file core documentation. This will also negatively affect knowledge sharing and learning.
- Evidence suggests better-than-average overall program quality, as corroborated by IEG's country case studies. Clients were largely appreciative of work quality, though process sometimes remains an issue.
- Internal collaboration between the World Bank and IFC and between field offices and headquarters was variable, with examples of excellent practice, especially in advisory services, to sensible divisions of labor but little systematic interaction. Scope for improvement remains in some areas.

Previous chapters in this evaluation discussed the relevance of the Bank Group capital markets program, its quality at entry, and its effectiveness in terms of program outputs and outcomes. This section examines issues related to sustainability, especially, program funding; monitoring, and client perceptions of quality and internal organization.

Funding the Capital Markets Work Program

Although the Finance and Private Sector Development (FPD) program was reasonably funded, within the World Bank's budgetary environment, the share of capital markets funding, within this total, declined. As shown in Figure 6, during the evaluation period, and within the World Bank's budgetary environment, the share of FPD in the total budget available to the World Bank's networks rose slightly, from about 3 percent to about 5 percent.[147] However, within the overall FPD budget, capital markets work, which had increased steadily until the middle of the period, began to taper relative to other areas of financial sector work. Simultaneously, other areas within FPD rose—for example, financial inclusion—suggesting a shift in internal priorities (Figure 6). These data refer to the budget at the FPD anchor, which has diminished over time, with a shift of budget toward the regions. Yet, the anchor share of the capital markets practice, relative to the regions, did not diminish, and the movement of budget toward the regions does not explain this decline.

Figure 6 Financial Sector Funding and Capital Markets Funding (2004–14)

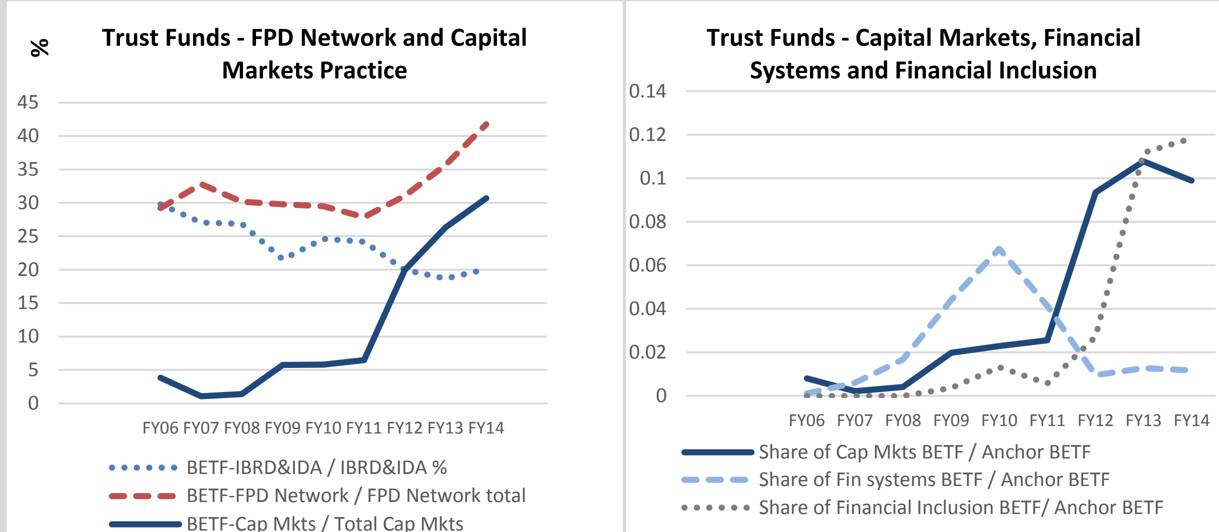


	% Cap.markets (anchor) in FPD	% Fin. Inclusion (anchor) in FPD	% Fin. Systems (anchor) in FPD
FY04	5.4	0	9.5
FY05	4.6	0	10.6
FY06	5.5	0	10.4
FY07	6.2	0.9	10.4
FY08	6.9	1.6	12.6
FY09	7.4	1.9	13.1
FY10	7.0	2.3	12.7
FY11	7.0	2.9	12.3
FY12	7.1	4.2	10.1
FY13	7.0	4.5	7.9
FY14	6.0	4.8	7.2

Source: IEG analysis based on World Bank data.
Note: FPD=Finance and Private Sector Development.

External funding sources helped to support the FPD network and the capital markets work program to a significant extent. The reason why the FPD network, as a whole, held its own in terms of funding over the evaluation period was its increased reliance on trust funds. Trust funding for FPD increased even when there was a decline in the proportional use of trust funds World Bank-wide. The capital markets segment of work was even more reliant on external funding than the FPD network as a whole (Figure 7, Panel 1). Further, looking within the major practice areas in FPD, the capital markets segment has been the most consistently reliant on Bank-executed Trust Funds, (BETFs) though in the past two to three years the financial inclusion agenda has attracted a lot of trust funding. The financial systems segment obtained external funds during the years of the financial crisis, but its external funding has since diminished to negligible levels (Figure 7, Panel 2).

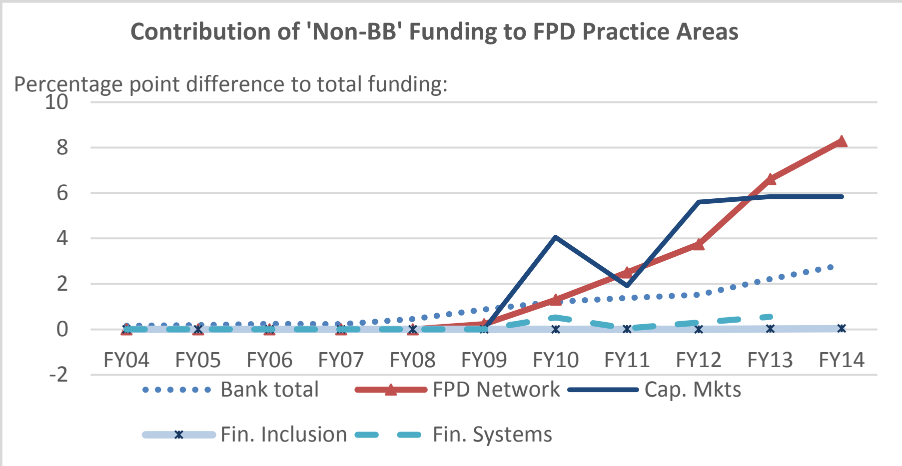
Figure 7 Changes in the Relative Share of Financial Sector Work at the Anchor: Capital Markets, Financial Systems, and Financial Inclusion (2004–14)



Source: IEG analysis based on World Bank data
Note: BETF: Bank-executed Trust Fund

Besides BETFs, however, the FPD network, and especially, the capital markets practice, made use of funding from additional sources that are not, strictly speaking, within the Bank-financed budget. Such sources, which are included within the budget for accounting purposes, include, in particular, externally financed outputs which are essentially mechanisms for donor support for small programs below $1m; and reimbursable advisory services, where services are paid for by the recipients. In addition, the capital markets practice enjoyed funding from GEMLOC (the Global Emerging Markets Local Currency bond program; see chapter 2); obtained as fee income from PIMCO for the management of a portfolio of bonds linked to the GEMLOC index. Adding sources such as externally financed outputs, reimbursable advisory services, and GEMLOC to BETFs, using a wider definition of "non-BB" budget, made a negligible difference for the World Bank as a whole over this period—less than 2 percent—though there is a discernible trend increase. But for the FPD network, there was a greater trend increase in funding from such sources. And among the anchor Finance and Markets practices, the greatest trend increase was in the capital markets practice (Figure 8).[148]

Figure 8 Contributions of Non-BB Budget to FPD work



Source: IEG analysis based on World Bank data
Note: Includes Bank-executed trust funds, externally financed output, reimbursable advisory services, and, GEMLOC (2004–14); BB=bank budget.

The bond market segment of the capital markets program had particularly strong support from external funding. IEG undertook a detailed supplementary analysis of capital markets funding for Bond market development advisory services and analytic and advisory activities, identifying funding sources at the task level for the 86 reviewed. In addition to GEMLOC and reimbursable advisory services, these data also illustrate the importance of other funding sources, the FIRST trust fund (subsumed under the broader category of BETFs, in the preceding analysis), and the SECO- and SIDA-financed ESMID programs. These are not fully captured in the aggregate funding analysis of the preceding section, which refers only to the World Bank and to World Bank–financed funding, whereas the ESMID program, undertaken jointly between the World Bank and IFC, distributed funds to projects under both institutions (Appendix Table A8.1).[149] The inclusion of SECO and SIDA, primarily for bond market work, further adds to the importance of external funding for capital market development work. It also illustrates the difficulty of capturing a complete budget picture, integrated across the World Bank and IFC, for the Finance and Markets practice as a whole.

Table 8.1 Funding Sources for the Bank Group Advisory Services for 86 Bond Market Interventions (2004–14)

Funding Source	No of AS/AAA	% No of AS/AAA	Allocated Funding ($000)	% Total Allocated Funding
BB (exc. GEMLOC, RAS)	24	27.9	3,867	16.5
SECO	8	9.3	2,723	11.6
SECO/SIDA	1	1.2	657	2.8
SIDA	8	9.3	8,670	37.0
GEMLOC	30	34.9	4,029	17.2
FIRST	6	7	812	3.5
RAS	3	3.5	606	2.6
Debt Management Fund	1	1.2	59	0.3
Bilateral/ other	5	6.9	2,032	8.7
Total Advisory projects	86	100	23,455	100.0

Source: World Bank Business Warehouse data.
Notes: AA – advisory servies, AAA – analytic and advisory activities, BB – Bank Budget, DMF - Debt Management Fund, FIRST - Financial Sector Reform and Strengthening Initiative, GEMLOC - Global Emerging Markets Local Currency Bond Program, RAS - Reimbursable Advisory Services, SECO - Swiss State Secretariat for Economic Affairs, SIDA - Swedish International Development Cooperation Agency

These data show that SIDA was the largest source of funds for bond market advisory activity by the Bank Group during the period (37 percent) and GEMLOC was second, with more than 17 percent of bond advisory funds. Residual funds from GEMLOC amounted to some $1.8 million at the end of FY15. The Bank Budget provided around 16 percent of the funds for the full portfolio of advisory interventions. The third largest provider of funds outside the Bank Group, was SECO (10 percent).[150] Between FY07 and FY15, the capital markets practice received about $7.8 million from SIDA, in addition to about $2 million from SECO. These are significant sums compared to the total of some $23 million spent on advisory projects in the bond markets area during the years 2004–14.[151] Toward the end of 2015, the Capital Markets Practice secured another significant grant from SECO, to establish a new trust fund, this time for around SFr15m, discussed further below (around US$15 million).

FIRST, a significant BETF, also provided considerable resources for the World Bank capital markets program. Established in 2002, initially to provide funding for FSAP- and ROSC-recommended follow-up, it gradually provided support for a broad spectrum of financial sector advisory work, for both the World Bank and the IMF in principle, though over time, the World Bank's share accounted for the bulk of the resources.[152] During the review period as a whole, there were 345 World Bank–executed projects, compared to just 57 undertaken by the IMF (Table 8.2).

Box 8.1 FIRST – An Introduction

The Financial Sector Reform and Strengthening (FIRST) initiative is a multidonor initiative (including the World Bank Group and the International Monetary Fund) that supports financial sector development, housed in the World Bank Group's Finance and Markets Global Practice.

FIRST operates in a wide range of financial markets. Activities funded may include reform strategy and policy advice, strengthening legal, regulatory and supervisory frameworks, financial market and product development, and capacity building. The program currently includes two project windows: (i) a "catalytic" window through which FIRST funds small-scale technical assistance projects to tackle targeted, short-term needs, based on country demand and (ii) a "programmatic" window through which FIRST funds larger programmatic technical assistance engagements designed to provide funding across multiple projects connected through a multi-year, reform program. FIRST has funded approximately one-third of World Bank–executed TA projects in the financial sector, and staff and clients report that "finding alternative sources for the projects funded by FIRST would be almost impossible" (FIRST, 2014).

The program has had three funding phases; the most recent began in 2013. Throughout these phases, FIRST has seen an increase in the average size of projects ($180,000 and $380,000 phase II and III respectively). Since its recent introduction, there has been an uptick in demand for larger, programmatic projects (from one in 2014 to four in 2015) (FIRST Database).

FIRST has been subject to several evaluations; the latest was completed in May 2014. The evaluation found FIRST-funded projects to be successful in delivering high-quality outputs; projects were delivered on time and on budget and perceived to be strategically relevant. However, establishing clear evidence on outcomes and impacts was more difficult. Impacts materialized in a significant number of projects, but for others, implementation of recommendations fell short, sometimes owing to lack of consensus on reform or lack of knowledge and implementation capacity. In the area of Capital Markets, five countries were reviewed by the 2014 evaluation. With one exception, project deliverables were completed on time and on budget and overall, clients were satisfied with the quality of the consultants' work. Outcomes, however, were mixed, and the expected impact on financial markets is difficult to assess.

Phase III includes a strong focus on results and puts forward a monitoring and evaluation framework consisting of two components: (i) standardized log frames across all FIRST projects and programs and (ii) country-level impact measures which are expected to capture the aggregate impact of FIRST work, both catalytic and programmatic, in each country (FIRST, 2012). The 2014 evaluation describes the challenges associated with setting targets when results are expected years down the road and recommends that monitoring and evaluation system and procedures be realistic in terms of the time frame for measurement (FIRST, 2014).

Sources: FIRST website, IEG staff.

Within the financial sector, FIRST generously supported capital market development. Although only 40 of the 345 World Bank projects and two of the 57 IMF projects were identified as Capital Markets projects in the FIRST database, adopting a broader definition, in line with the rest of the present evaluation, including relevant projects under insurance, pensions, and financial infrastructure suggests a considerably larger role for FIRST in capital markets funding. On this basis two-fifths (140 out of 345) of World Bank projects, and a fifth of IMF projects, in terms of numbers, fall in this area (Table 8.2).[153] Based on this broader definition, US$30.4 million of FIRST projects, by value, were relevant to the capital markets space during 200215; of which the World Bank executed US$28.3 million and the IMF executed US$2.1 million. The lower share for the IMF likely reflects its greater emphasis on stability and surveillance-related issues.

Table 8.2 FIRST Projects Relevant to Capital Markets (2002–15)

Executer	Main Sector	Main Sector (Details)	No. Trust Funds	No. Projects	Avg. value($m)	Total ($m)
WB	**Capital Markets**	Bus. Conduct (Corp.Governance)	5	4	0.09	0.5
		Capital Markets	40	40	0.17	6.8
		Financial Infrastructure	34	33	0.20	6.6
		Insurance	48	45	0.24	11.3
		Pensions	18	18	0.17	3.0
	Capital Markets Total		**145**	**140**	**0.20**	**28.3**
	Rest Total		**205**	**205**	**0.19**	**39.7**
	World Bank Total		***350***	***345***	***0.19***	***68.0***
IMF	**Capital Markets**	Capital Markets	2	2	0.19	0.4
		Financial Infrastructure	4	4	0.22	0.9
		Insurance	3	3	0.16	0.5
		Insurance/Pensions	2	2	0.18	0.4
	Capital Markets Total		**11**	**11**	**0.19**	**2.1**
	Rest Total		**46**	**46**	**0.19**	**8.9**
	IMF Total		***57***	***57***	***0.19***	***11.0***
WB+IMF Total			**407**	**402**	**0.19**	**79.0**

Source: FIRST database (June 2015).

Just as ESMID provided particular support for bond markets, FIRST provided the most support to the legal and regulatory area, which accounted for two-thirds of the capital markets support received (discussed in Chapter 6). Nonetheless, close to an additional 30 percent of FIRST capital market funding was also used for the development of bond markets. Looking at the importance of FIRST in the IEG-identified capital market portfolio used for this evaluation, FIRST-financed interventions included 476 AAA and US$19m in cumulative value. As in the preceding analysis, about a third of the technical assistance portfolio (97 projects and US$12m in cumulative cost delivered) were funded by FIRST.

Table 8.3 IEG Capital Markets Portfolio: Importance of FIRST (2004-14)

Product Line	(Nos)		(Value $m)	
	Number	**Percent**	**Total**	**Percent**
World Bank AAA				
EW	151	32%	19,891	33%
TA	325	68%	40,700	67%
World Bank Technical Assistance and FIRST				
TA-FIRST	97	30%	11,687	29%
TA-REST	228	70%	29,013	71%

Source: IEG analysis.

Note: EW=economic and sector work; TA=technical assistance.

Other indicators of the importance of FIRST for the capital markets program include the frequency by which it is mentioned in country CAS documents, in the context of support for capital markets work. In the CASs reviewed by IEG (see Chapter 1), FIRST was the most often referenced trust fund, with 13 out of 23 relevant activities in the context of capital markets development in four of the five country case studies undertaken by IEG, particularly in Morocco and Vietnam (Appendix Table A8.2) as well as in Colombia and Kenya, though in these latter, together with the support of ESMID.

IEG's case studies also highlight the importance of donor, trust fund, and other funding for supporting the Capital Markets agenda. Four out of five case studies highlighted a significant role for trust funds; ESMID and GEMLOC playing a major role. In Kenya, the role of trust funds was seen as critical in funding Bank Group activity. In Vietnam, the capital market work raised money from other external sources—an ASEM trust fund.[154] India is the one exception. The FIRST 2014 evaluation highlights these challenges by stating that "finding alternative sources of funding for the projects financed by FIRST would be very difficult because FIRST was almost alone among donors to fund a broad range of TA." Clients, in particular, stated that FIRST was the "best and sometimes only" source of funding" (FIRST, 2014).

The ability to obtain external funding suggests that donors and partners found this work of significance and quality. ESMID was sustained through three large-scale external evaluations, indicating strong external endorsement. Vulnerability with regard to program sustainability remains a question. GEMLOC resources, in particular, came to an end after 2015, as fee income from PIMCO ceased. Fortunately for the capital markets practice, a new trust fund agreement, with SECO, and for a sum of about $15m, was finalized for further bond market development work. As with the previous ESMID programs, resources are targeted toward specific countries, beginning with Colombia, Indonesia, Peru, and South Africa. Countries identified for a possible next wave are Egypt, Ghana, Vietnam, and Tunisia.

Yet such external reliance had some consequences for program coherence and country choice. Because demands for FIRST funding were submitted individually by country teams, often in the aftermath of FSAPs, there was little opportunity for a broader strategic view at a country or regional level, let alone a Bank-wide level.[155] Support sometimes went to countries that lacked the size or systems for program sustainability. There were several instances of duplication of content; also, the piecemeal approach led to gaps in coverage of the full spectrum of activities needed to develop a market. Despite efforts at careful targeting, GEMLOC interventions at the country level were sometimes fragmented. FIRST has tried to combat this through its recent programmatic approach. The SECO and SIDA programs have taken a much more integrated approach in specific markets; however, country selection questions may remain. Transparent and rigorous criteria for selection must be defined, as well as channels to transfer country-level learning and experience to other countries.

The funding of global programs and cross-country initiatives remains an issue. GEMLOC's most important work was its advisory services, including global peer group discussions. While funded at present from the residue of fee revenues, and with $1m earmarked for global programs in future allocations from SECO, the Bank Group should ensure that future funding is available. Indeed, funding for additional strategic, cross-cutting and global work must also be found, if the Bank Group is to become an innovator and knowledge leader, and not only a replicator in this area. In the country-driven model of World Bank work, there has been less attention to strategic and cross-cutting work than desirable. If reliance on external funding remains high, at the least a larger proportion of funding could be moved toward global and cross-cutting themes, to permit the Finance and Markets Global Practice to take a holistic view and tackle cross-country issues.

Assessing Work Quality

LIMITED EVALUATIVE EVIDENCE

The present evaluation highlights the difficulties of assessing development outcomes for Bank Group knowledge-based work because of a lack of evaluative materials. Of the 1,071 projects in the capital markets portfolio, only 12 percent, or 132 projects, have been evaluated. The most evident reason is that World Bank AAA, which accounts for more than 40 percent of the portfolio, is not subject to independent evaluation. IFC Advisory and Investment projects are subject to independent evaluation and validation, but on a sampling basis, which significantly reduces the number of evaluated projects available as evidence for the present evaluation (Table 8.4).

Table 8.4 Capital Markets Portfolio – Projects with Evaluation

Executor	No. Projects	No. w/ Evaluation (w/ DO Rating)	% w/ Evaluation	Avg. KMK DO	Avg. Rest WBG Portfolio DO
WB Lending	87	51 (50)	0.59	0.82	.72
WB AAA	476	0	0.00	-	-
IFC Investment	421	63 (54)	0.15	0.48	.66
IFC Advisory	87	31 (25)	0.36	0.68	.60
Total	**1071**	**145**	**0.14**	**0.65**	**.68**

Source: IEG portfolio review and Bank Group databases.
Note: Three out of the 132 projects are missing development outcome ratings; they were rated as "too early to judge" and "not rated." In addition, 13 projects with a 2015 evaluation fiscal year remain in the evaluation pipeline and are thus not included in the 132.
Note: Avg. Bank Group Overall Portfolio DO accounts for the remaining Bank Group projects approved between 2004 and 2014 and have been evaluated; tests show that the differences are significant only for IFC Investment.

Nevertheless, subject to this caveat, indications suggest higher than average performance. For IFC advisory services 68 percent were at least moderately satisfactory, versus 60 percent across IFC. World Bank ratings are only available for its lending, and here too results are better than average: 82 percent are at least moderately satisfactory, versus 72 percent for all lending.[156] IFC Investment experienced the opposite trend, but project-level ratings for IFC investments are less

relevant for the present evaluation. Few projects in this group—for example,IFC private equity funds, which make up two-thirds of IFC's investment portfolio—actually have capital market development objectives.

Table 8.5 Capital Markets Portfolio – Work Quality Ratings (Avg. Rating)

Rating	WB Lending		IFC Investment		IFC Advisory		Avg. WBG Overall		
	Avg.	N	Avg.	N	Avg.	N	WB	IFC IS	IFC AS
Overall Bank Performance	0.78	51					0.73		
Bank Quality at Entry	0.74	50					0.65		
Bank Supervision	0.88	49					0.81		
Overall Work Quality			0.70	54				0.71	
Screening, Appraisal, and Structuring			0.57	54				0.62	
Supervision and Administration			0.78	54				0.83	
Investment Role and Contribution			0.67	54				0.74	
Advisory Role and Contribution					0.78	27			0.80

Source: IEG.
Note: Avg. Bank Group Overall Portfolio DO accounts for the remaining Bank Group projects approved between 2004 and 2014 that have been evaluated.

Based on the limited evaluative evidence, project-level work quality indicators show mixed results. These indicators focus on design, implementation and institution support contributions. They differ between the World Bank and IFC, and between investment and advisory work. For World Bank lending, "overall bank performance" includes subcategories for quality at entry and supervision. For IFC Investment, subcategories for overall work quality include screening, appraisal, structuring, supervision and administration, and role and contribution. For IFC Advisory Services, subcategories include design and implementation quality as well as the role and contribution of IFC. And for all categories, the ratings reflect the work quality for the entire project, which typically includes components not specific to capital markets.

Nevertheless, subject to this caveat, indications suggest higher than average performance. For IFC advisory services, 68 percent were at least moderately satisfactory, versus 60 percent across IFC. World Bank ratings are only available for its lending and here, too, results are better than average: 82 percent are at least moderately satisfactory, versus 72 percent for all lending. IFC investment experienced the opposite trend, however project-level ratings for IFC investments are less relevant for the present evaluation. Few projects in this group – e.g., IFC private equity funds, which make up two thirds of IFC's investment portfolio – actually have capital market development objectives (Table 8.5). Although comparisons of the capital markets portfolio against the rest of the respective Bank Group portfolios suggests some over performance at the World Bank and underperformance at IFC, it is difficult to make comparisons given the different yardsticks in each category.

LIMITED BASIC DOCUMENTATION

Aside from limited institutional evaluation, serious limitations in the filing of core documents for advisory service projects constrain knowledge transfer as well as thematic evaluation. Core documents are not always available in the system, residing instead in personal staff computers or folders. This not only limits the extent to which development outcomes can be assessed but also limits Bank Group knowledge-sharing and learning possibilities, both internally and vis-à-vis clients. IEG undertook a systematic review of core documentation availability in the World Bank Operations Portal, and in IFC's i-Desk, for advisory services in the capital markets portfolio. Core documents were defined to include some form of concept note or proposal, mission back-to-office reports, core and supplementary reports, consultant terms of reference, documentation of the peer review process at concept and final report stage, and documents relevant to dissemination. Results show that only just over 40 percent of World Bank AAA, on average, have all the required core documentation (Table 8.6). Results for IFC are somewhat better. There is variation across different segments of the portfolio, with poorer results for bond market work, and relatively good results for housing and insurance.[157] Perhaps not surprisingly, given the need for clearance to proceed to next steps, looking across the project cycle the best information is available at the earliest (concept) stage, and the poorest is for completion and dissemination documentation. It is also notable that final reports are missing in some cases in up to half of the portfolio. [158]

IEG case study authors in India, Kenya, Morocco and Vietnam also commented on weak documentation, especially for World Bank AAA. Details on implementation and deliverables were not consistently available. IFC projects were found to be relatively better documented. IEG further investigated the extent to which documentation availability differed by funding source. The Vietnam case study found that the use of trust funds introduced discipline into project development not otherwise evident in the rest of the World Bank AAA stream, owing to the need to submit grant reports to donors. Such accountability-driven information is also evident in the external evaluations of ESMID. Yet the May 2014 external evaluation of FIRST found errors in project classification as well as poor reliability of existing project data. Projects financed as reimbursable advisory services to clients were particularly poorly documented and often classified as unavailable even to Bank Group staff. Finally, IEG compared the availability of core documents, as defined here, and non-core documents, from the point of view of assessing advisory service quality, including administrative correspondence (for example, on mission timing), procurement and disbursement documents, etc. In many cases, project files were found to consist mainly of the latter.

Table 8.6 Capital Markets Portfolio – Documentation Availability by Topic Area

	Bond Mkts		Insurance		Pensions	Housing	
	WB AAA	IFC AS	WB AAA	IFC AS	WB AAA	WB AAA	IFC AS
Total Interventions (Nos)	79	9	24	6	32	32	24
Concept note/pkg/PDS Approval%	65.8	100	70.8	83.3	56.3	75	100
Concept note review/minutes %	41.8	33.3	45.8	66.7	50	59.4	66.7
BTORs %	35.4	22.2	20.8	33.3	53.1	71.9	20.8
Consultant/General TORs %	13.9	0	45.8	83.3	28.1	56.3	87.5
Reports/Core Output %	55.7	55.6	45.8	66.7	65.6	53.1	91.7
Present./supp. outputs	35.4	55.6	45.8	66.7	28.1	46.9	83.3
Minutes/peer review of outputs	27.8	11.1	41.7	66.7	50	50	58.3
Proj. Completion Summary	38	66.7	41.7	66.7	37.5	40.6	91.7
Dissemination Docs	0	0	25	66.7	21.9	21.9	75
Overall Percentage Availability	34.9	38.3	42.6	66.7	43.4	52.8	75

Source: IEG analysis.
Note: BTOR=back-to-office report; TOR=terms of reference.

Overall, results indicate that if knowledge sharing and learning and advisory services are core institutional goals, this area of the Bank Group advisory portfolio is not equipped to meet these objectives. There is no reason to believe that other areas of Bank Group advisory services perform significantly better. As regards reimbursable advisory services, although such high levels of confidentiality may be merited in a private consultancy firm, it raises the question of whether a knowledge-sharing and development-focused Bank Group should adopt this approach or consider some early declassification or sharing of declassified versions, as with FSAPs.

MONITORING AND EVALUATION

Case studies found overall monitoring and evaluation, results frameworks, and indicators fell short in World Bank AAA, and were generally better in IFC advisory services (Table 8.7). Despite these monitoring and evaluation constraints, external evaluations of products such as FIRST and ESMID suggest that work quality was good in general, and outputs appreciated by recipient countries. The 2014 evaluation of the FIRST trust fund finds that overall, FIRST-funded projects were successful in delivering high-quality outputs, projects were well designed, recommendations were appropriate, and most were completed on time and on budget. In the area of capital markets, the evaluation finds that the five projects reviewed were well designed and outputs were of high quality, though outcomes and impact were more uneven.

Box 8.2 M&E Frameworks for Capital Markets Projects

In Kenya, the monitoring and evaluation framework for ESMID was found to be appropriate and was adapted over time to incorporate three attributes beyond the initial set of indicators: stronger link between overall program goals, component objectives and program measurement; greater emphasis on qualitative measures; and utilization of a more logic-based system. On the other hand, in Colombia, limited clarity on monitoring and evaluation hindered its implementation, while in Morocco, indicators monitored were, in some cases, too far upstream to indicate outcomes. Morocco's 2010 World Bank Sustainable Access to Finance development policy loan used the submission of a draft law to Parliament as an indicator for DPL 2010. Though the indicator was met, the law was not passed. However this also indicates that the political process can slow outcomes even when implementation agencies perform well.

In Vietnam, World Bank AAA projects that were not trust-funded provided scant attention to monitoring and evaluation. Projects funded by trust funds contained more reference to outputs and outcomes, but the measurement tended to be more narrative than quantitative and lacked a detailed monitoring and evaluation framework. In contrast IFC's advisory services projects in Vietnam demonstrated a lot of thought as to measuring outputs and impacts. For example the flagship corporate governance project listed 57 indicators and the bond market project contained 34. And in both the bond market and corporate governance streams the indicators served as a constant reference point for evaluation. Progress against indicators was reviewed in the semi-annual reports as well as the completion reports. In some cases, however, appropriate monitoring and evaluation for capital markets areas is difficult, given overall project size and complexity. As one case study points out, some projects did not merit full-blown monitoring and evaluation systems, because they were relatively short or with relatively small budgets. Requiring a detailed monitoring and evaluation framework may have been process over substance.

Source: IEG

Table 8.7 Quality of the Results Framework and Monitoring and Evaluation – Lending and NLTA

Question	Colombia	Kenya	India	Morocco	Vietnam	Avg.
Overall, in the capital markets interventions reviewed, was there a logical link between Bank inputs and expected outputs or achievements at the country level?	2	2	n/a	3	2	1.8
Were results indicators used, and were they appropriately chosen relative to the goals to be achieved? Were they quantifiable?	1	1	n/a	2	1	1
Were baselines and targets specified?	1	2	n/a	2	1	1.2
To what extent did the framework target variables under Bank Group control?	1	1		1	1	1
Did the results framework take account of exogenous factors – e.g., collaboration with other bilateral aid donors / IFIs?	1	n/a		n/a	1	0.5
Were the results that the operation aimed to achieve over - ambitious, compared to the content of the operation?	2	n/a	1	1	n/a	0.8
Overall Country Score	**1.3**	**1**	**0.3**	**1.5**	**1**	

Source: IEG analysis.

Client Interaction and Coordination within the Bank Group

IEG's case studies suggest that strategic engagement with clients and work quality were generally perceived to be good, though work processes were sometimes considered lacking.

The Bank Group was often seen as a trusted advisor; however, it did not always play the lead role in the capital markets space. Thus in Vietnam, the reviewer notes that the Bank Group consistently engaged strategically with decision makers, and enjoyed the trust of the authorities uniformly, and country clients described the work as high in value-added. In Colombia, positive client feedback was reported. In Morocco, the Ministry of Economics and Finance, the capital markets regulator, and debt market management team all suggested a collaborative relationship with the World Bank capital markets team. In Kenya, the Bank Group's role as "honest broker" was seen as valuable and Bank Group staff were seen as being responsive to client needs. However, clients sometimes had complaints about process, and at points the Bank Group suffered from a lack of strategic direction and a diffusion of effort, sometimes with insufficient feedback to clients.

In India, the relationship with the client is more complex: World Bank engagement in this area has declined, whereas IFC's has grown in prominence. Early World Bank work on demutualization, corporate bonds, and the public debt management agency was well received and well regarded. However, whereas the World Bank had a significant engagement with the Government of India in an advisory capacity in capital market development in the early part of the period under IEG review (2004 to 2014), after about 2009, the pace of engagement slowed down. While the World Bank is well regarded by the Indian authorities, its interventions are somewhat piecemeal. Demand from the government in this area is variable, and there is fragmentation among regulators, affecting the depth of the World Bank's engagement. In particular, its engagement with the Reserve Bank of India, a key player in this space, has been limited, though the World Bank Treasury department has recently expanded its advisory role. IFC's engagement, especially at the outset of the period, was largely with the private sector and, until recently, did not have the character of a partner in development. However, IFC's recent Treasury operations have won praise for their innovation and timeliness, and for their link back to real sector finance. Its support to the banking sector and purchase of bank bonds also won some comments regarding the responsiveness and professionalism of IFC front-line Mumbai-based staff, and enforced but assisted exposure to IFC's Environmental and Social guidelines.

COORDINATION WITHIN THE BANK GROUP

Internal Bank Group coordination in capital markets areas has varied from near-best practice to mixed. The Capital Markets department has been one of the few Bank Group units that operates on a truly joint basis across the World Bank and IFC, and its work on debt markets is undertaken in close collaboration with World Bank regional country teams, with the World Bank Treasury Debt Management team, and the World Bank's Debt Management Team housed in the macroeconomic global practice. Interestingly however, there is little synergy between the Treasury departments of either the World Bank or IFC, whereas institutions such as EBRD and ADB illustrate that more is possible in this area (Chapter 2). In areas such as housing finance and insurance, there is a logical separation of roles between the World Bank and IFC, with the

former advising on the policy front, and the latter providing hands-on support to corporate entities operating in these areas (Chapters 4 and 5). In the area of insurance, there is little evidence of uptake in IFC of the many IAIS assessments embedded within FSAPs. By contrast, in corporate governance, Reports on Observance of Standards and Codes (ROSCs)have increasingly come to provide information for IFC advisory work (Chapter 6 Appendix 6.2).

From a country program perspective, there were both thematic as well as country-specific variations in internal coordination between Bank Group teams. In Kenya, Colombia, Morocco and Vietnam, coordination was said to be good, particularly in areas relating to advisory services and bond market development. For example, in Kenya, given that developments around the areas of government and nongovernment bonds and legal and regulatory reforms were interlinked and were both seen as key by the government, Bank Group institutions worked closely together—to a significant extent under the umbrella of the Capital Markets department, already noted for its contributions to collaboration. This was particularly under the ESMID and GEMLOC programs, but the same teams also contributed to lending projects, FSAPs, technical assistance under FIRST, and debt market development.

In Vietnam, IEG's case study also reports good internal work coordination in the area of advisory work. The allocation of project task team leader responsibilities between World Bank and IFC was consistent, with the World Bank taking the lead with public institutions, including all seven capital market regulation, development, and financial infrastructure–related projects. Projects with primarily private sector counterparts were implemented under IFC advisory services —including the three bond market projects and two corporate governance projects. Although each unit implemented its projects on a daily basis, interviews suggest awareness within the resident mission staff of complementary interventions. **Colombia** also points toward a reasonable level of coordination in the delivery of advisory activities in particular after the 2012 FSAP, especially in the areas of bond markets and infrastructure. This synergy has expanded under the Deep Dive approach.

Work in Morocco suggested a similar complementarity of roles, though with less mutual recognition and interaction. The two organizations worked in complementary areas: the Bank focusing on regulation and supervision in the public markets, whereas IFC worked almost exclusively in private equity markets. It is not clear how well informed each was of the other's work. One area in which there were obvious linkages was in corporate governance, where the ROSC prepared by the World Bank became a foundation for subsequent work by IFC.

In India, even more so than in Morocco, few areas of overlap or coordination were noted; possibly in part because IFC and World Bank offices in New Delhi are in different locations. IFC also has an office in Mumbai, which handles a large part of its activities with the financial sector as well as IFC's Treasury issues. Discussions suggest that staff in both Bank Group agencies had some awareness of each other's work but there is little by way of regular or formal interaction to

share views and information. There was some interaction between World Bank staff and IFC staff in the area of housing finance, but whereas IFC staff had an awareness of the issues in areas like mortgage securitization, the staff in the field was much more focused on urban development. The World Bank worked on its own on stock market demutualization and on the corporate bond market, where IFC staff had little knowledge, interest, or overlap.

Notwithstanding generally complementary, if sometimes remote links, there were aspects of the relationship between the World Bank and IFC and sometimes between field offices and headquarters, in capital markets areas, that could be problematic for clients. In Kenya Bank staff noted gaps in mutual understanding at both management and operational levels about how the other institution operates, leading to difficulties with some technical assistance lending. And Vietnam's work in the private equity area indicated a decided split between the roles of the resident mission, the regional IFC office, and Washington, DC– based staff. Essentially the description was that "the resident office manages the relationships, the regional office manages the business and the DC staff is focused on social policy." Country counterparts complained of a diffuse decision-making structure, lack of accountability by any one person, and a conflict of goals among IFC staff, especially with regard to the use and impact of environmental, social, and governance criteria. Yet, in India, clients appreciated the global perspective of Washington-based staff, and its complementarity to the responsiveness of local IFC staff, including such areas as corporate governance and environmental standards. These contrasting perspectives suggest that notwithstanding positive findings in many areas, there remains scope for improvement.

Sustainability, Quality, Monitoring and Coordination – A Summary

Finance and Private Sector Development, especially the capital markets program, has experienced a rising proportion of externally financed funding. The future coherence and sustainability of capital markets work requires stable funding. The program has been significantly self-sustaining, and has won the support of donors. But its funding model could have contributed to its opportunistic engagement. Future vulnerability could be an issue.

Knowledge management could be improved although overall program quality was better than average. Conventional assessments of development impact of such an intensively knowledge-based program are hampered not only by extremely limited evaluative evidence, but also by failure to maintain and file core documentation, which will also negatively affect knowledge sharing and learning. Evidence suggests better than average overall program quality, as corroborated by IEG's country case studies. Clients were largely appreciative of work quality, though process sometimes remains an issue. Internal collaboration between the World Bank and IFC and between field offices and headquarters was variable, with examples of excellent

practice, especially in advisory services, to sensible divisions of labor, but little systematic interaction. Scope for improvement remains in some areas.

9. Conclusions and Recommendations: What Worked, What Didn't, and What's Next?

Historically, both IFC and the World Bank took the right strategic choices with regard to many broad directions over the past decades. When IFC undertook to support client countries' capital market development in the 1970s, with the creation of its first capital markets department, the question of whether or not to sequence market-based finance after banking was a conundrum. Both IFC and the World Bank decided to support capital market development in tandem with overall financial reform; a decision later supported by empirical research, which did not favor either a bank-led or market-led model.

World Bank attention to local currency government bond market development began in the aftermath of the Asian crisis as recognition of the importance of local currency government borrowing grew, and its GEMLOC program responded. IFC's early support for emerging market asset classes proved pioneering, as was its contribution toward the building of investability indices in these assets. As markets matured and private players emerged, the Bank Group emphasized areas of a public good nature, or where catalytic frontier market support was needed. Thus IFC moved attention away from public stock markets as equitization receded and toward private equity, for small businesses, and the development of local fund managers. Today as low-income countries graduate form IDA, new emphasis on local bond market development is needed for their domestic resource mobilization.

These early decisions were in line with the Bank Group aims of development support, especially for public sector management and also for smaller enterprises. The costs of the traditional model of being a "public, listed company" are inherently too high for most small businesses.

Thus the Bank Group followed broadly correct strategic directions at critical points. And several aspects of its program of interventions have been innovative: (ranging from several first-time and unusually structured local currency issues of both IFC and IBRD Treasuries, its three-pronged self-financing GEMLOC program for building government bond markets, some of IFC's securitization programs, its insurance related "CAT" or catastrophic risk bonds), displaying global leadership and convening power (as in the Green Bond principles and contributions to standards-setting for financial infrastructure). Yet, today, at a more detailed level, there is room for improvement in certain areas, and for a more coherent program for capital market support across its elements.

Strategic Coordination Across Program Areas

Driven in part by its funding model, and possibly reflecting the Bank Group's partial strategic underpinning for capital market development for most of the review period, capital market development at the country level has sometimes been a patchwork of interventions. Even at a broader level links across key related segments of interventions have surprisingly failed to develop. Thus while the Capital Markets group at the F&M anchor has had a strong program for developing client countries' bond markets, the local currency bond market development program undertaken by IFC's Treasury department focused, independently, on a quite different set of countries. Treasury programs could be more effective if undertaken in tandem with deeper systems reforms for local bond market development that countries themselves undertake. Such an integrated approach was adopted by both the ADB / ASEAN+3 initiative, and there are also elements of greater integration today at EBRD for example through its diagnostic work, or its construction of benchmark money market indices in markets which they aimed to support through bond issuance (e.g., Russia, Romania). Such upstream integration between money market development and bond market development has been rare, although not unknown (e.g., Colombia, Morocco), at the World Bank Group.

Another area that would have benefitted from greater program integration has been the linkage between insurance and pensions projects, so that their potential role as institutional investors contributing toward capital market development could be better captured. Although at an analytic level the knowledge of these linkages and how they could be captured have been well known to Bank Group staff, in practice, this knowledge usually did not transfer to most operations in these areas. One exception has been the initiative in Colombia to invest in infrastructure bonds. In this context, some countries' experiences with suitable investment vehicles, such as the Mexican certificates of capital development (CCDs) largely held by Mexican pension funds, and Peruvian infrastructure debt trust funds are of interest. More broad-based menus of investment, that help to optimize returns but nevertheless safeguard the funds of investors, are needed.

Sequencing and Clustering of Reforms

In most countries, the Bank Group engaged in dialogue on a broad front in capital market areas, and the sequencing of interventions was not a major issue. But in some cases where engagement was demand-driven and highly specific, it was not possible to achieve effectiveness, as the program did not span important linked areas. One example was the corporate bond market work in India in which World Bank outputs, though thorough and cognizant of the interrelation between government and corporate bond market development, could have had greater overall impact had the dialogue also spanned the government securities market.

Issues concerning the interrelationship between government and corporate bond markets are of importance to the Bank Group, and seemingly, early emphasis on the former, through vehicles

such as the GEMLOC program, is now ceding to greater emphasis on corporate bonds, for example through the Deep Dive initiative, and eventually, to transactions support, for example in the area of infrastructure project bonds, as in Colombia. Countries point out that the Bank Group's "honest broker' role in addressing issues in the enabling environment, and not the transactional support, per se, has been its most important contribution. Although recognition of and support to project bonds is very important, care may be needed to maintain, as necessary, an arms-length relationship between the policy and advisory support on the one hand, and transaction support on the other, benefitting from IFC's capabilities of translating policy into practice.

Adapting Advice to Country and Global Needs

International best-practices methods are an important benchmark but may not be optimal for every country. In some instances, projects proposed the adoption or adaptation of developed capital market solutions to smaller, less developed capital markets, which were not ready for such solutions. Risk-based supervision procedures are currently viewed as international best practices, yet the stage of market development in the West Bank and Gaza was far too preliminary to warrant the use of this technique. Other examples were the introduction of mortgage liquidity facilities in countries where macroeconomic and financial market conditions may not have had the depth or stability to ensure their success, or projects to develop equities-based capital markets in countries where there would be difficulty in finding a sufficient "critical mass" of private companies to issue and list equities. Such Bank Group projects were "ahead of their time." Conversely, there may a need to alert the most sophisticated clients to issues associated with products such as credit derivatives, or trading processes associated with new technologies (for example, high-frequency trading) that can lead to increased risk.

However, there were also instances of thoughtful adaptation and tailoring of solutions to country circumstances. In the Europe and Central Asia region, payments systems interventions ranged from the installation of basic real-time gross settlement systems in countries such as Turkmenistan and Tajikistan, to others, where the World Bank supported the replacement of such basic systems with newer generation systems with added features of the queuing of transfer orders and intraday liquidity facilities, resulting in more efficient use of liquidity for real-time settlement.

Recommendation 1

Integrate capital market development within the Bank Group across different areas of support.

To strengthen the loose-knit Bank Group strategy toward capital market development, sometimes fragmented country-level interventions, and missed opportunities for integration, IEG recommends that the Bank Group:

(i) Prepare an underlying strategic framework for capital market development that spans all relevant elements of market development, from issuers to investors and including market infrastructure, for the Bank Group as a whole, that recognizes interlinkages and sets priorities.
(ii) Prepare guidelines for the Bank Group insurance and pensions programs that review at the design stage issues related to accumulation and asset management—for their own benefit as much as for the benefit of capital market development.
(iii) Identify a set of countries where programs for IFC's local currency Treasury bond issuance can be paralleled with support from the Capital Markets department in terms of measures for deepening and strengthening the selected countries' local currency bond markets.
(iv) Encourage consideration of enhancements through the guarantees program, of infrastructure bond issuance in public-private partnership approaches.

Diagnostics

A first issue in this regard is the need to improve use of FSAP findings. For a start, the incorporation of FSAP findings into the work program has been highly reliant on the FIRST trust fund, and translation into CASs has been a pale reflection of the underlying available knowledge. Even FIRST-funded projects did not optimize the use of the FSAP; for example, only a handful referred specifically to underlying IOSCO assessments and the extent to which recommended priorities were observed. The FSAP process could be used not only for the project planning and preparation process, but also to track long-term project outcomes, especially because project completion reports, prepared soon after project closure, are rarely in a position to capture final outcomes. Such linkages have been attempted in some rare cases, as in Colombia (2014), on the strengthening of Colombia's self-regulatory organization Framework.

Recommendation 2

Enhance the use of the FSAP instrument to underpin the design of capital markets interventions.

Given the availability of high-quality diagnostics that could be better used to strengthen the diagnostic underpinnings of capital market development, following any FSAP, the Global Practice, if possible together with the relevant country department, should:

(i) Incorporate FSAP recommendations in the preparation of Systematic Country Diagnostics and consider these findings, as appropriate, in Country Partnership Frameworks.
(ii) Establish Bank-wide criteria to assess prioritization of FIRST/FSAP follow-up work and identify funding for FSAP follow-ups from sources additional to FIRST.
(iii) When successive FSAPs are undertaken, make use of them to track long-term project outcomes.

Generating, Sharing, and Using Knowledge

The Bank Group could build a program of cutting-edge knowledge work to underpin future programs in the capital markets area. One example here is the use of new technology for funding options for small businesses. There is need for continued innovation in this area, even as new digital financing models such as FinTech gain ascendance. While correctly moving away from the public listed company model, unviable for small enterprises, private equity and venture capital rarely exit with an IPO. Today, local OTC trading platforms, crowdfunding, B2B trading platforms, or startup nurseries that focus on private equity and venture capital investors, may better serve small business needs. This is just one example of an area to explore; others must be explored if the Bank Group is to maintain a reputation as an innovator and not just a replicator in this field.

For the Bank Group to be able to provide cutting-edge knowledge, and continue to innovate and maintain relevance, it needs to strengthen its learning culture and practices. There are basic concerns relating to the systematic maintenance of documentation, and the setting of better standards for self-evaluation in advisory services. The absence of documents—especially downstream documents—limits the extent to which lessons can be drawn or shared. As IEG illustrates, procurement documents proliferate in project files where final reports are missing or only available in local languages. Downstream documents are less commonly available than concept notes, for which upstream clearances are required.

Data issues also affect the capital market program. Although significant steps have been taken to compile and standardize information available, in databases such as FinDebt, it still falls short of what is needed to monitor core program areas, for example, local currency bond market development. IEG's comparison of FinDebt information with that available from external vendors and country data sources suggested shortfalls in core areas.

The Global Practice could make better use of its knowledge repository to enable access to information on areas of common interest, through routine best-practice notes. For example, projects on covered bonds have been undertaken in Brazil, Turkey, Morocco and India, with few exchanges of information (although in India, IFC staff introduced clients to the Turkish and European models). Demutualization has been another topic of widespread interest in Kenya, Morocco, Nigeria, Costa Rica, Sri Lanka and India. A synthesis of experience would be of value. In the same vein, dissemination is important, not only through written notes but also through convening events that bring together clients across countries—as in the GEMLOC Peer Group Dialogues. Systematic maintenance and publication of findings of such proceedings are also suggested.

Recommendation 3

Strengthen knowledge management within the capital market area and develop a frontier global knowledge program.

(i) Implement and monitor service standards for maintenance of document repositories, data collection, and program monitoring and evaluation, including databases for capital market monitoring.
(ii) Ensure the write-up and cross-country dissemination of findings on priority topics, identified by relevant units (for example, on GEMLOC peer group dialogues, or on frequently recurring themes such as demutualization);
(iii) Deepen the knowledge base both at a country and at a global level, to ensure that Bank Group knowledge is at the cutting edge and provides intellectual leadership.

Tailoring Funding to Program Sustainability

Future program sustainability at present rests precariously upon the adequate and consistent availability of an array of trust funds and other sources, such as reimbursable advisory services. Should funding cease, not necessarily because of weak performance but as a result of changes in donors' priorities, program sustainability becomes a concern, as the funding of GEMLOC has demonstrated. Such funding models may have contributed to the opportunistic and sometimes incoherent pattern of interventions across countries, as well as, in some cases, within countries.

To some degree this has been addressed by new features of the FIRST program for programmatic funding, allowing a longer time horizon within a country. However, it does not address questions of completeness of coverage, or choices across countries, or limiting assistance to countries that do not meet preconditions for sustainability. GEMLOC country-level technical assistance was not programmatic, although the program attempted to leverage funding from parallel sources. While new programs such as ESMID and the Deep Dive take a holistic view of capital markets segments in a given country, questions on country selection criteria remain. Clear criteria to ensure fairness and transparency across countries are merited.

Finally, care must be taken, within such funding models, to safeguard the attention to global programs, global engagement, and research, if the Bank Group is to provide knowledge leadership and move toward the role of being an innovator rather than replicator of country-level programs. Vulnerability of global programs under country-driven models is an issue.

Recommendation 4

Review funding sources available for capital market development and their impact upon program design:

(i) Provide stable sources of funding for core global and country capital market programs, that balance internal and external sources and allow the Bank Group to respond to its priorities.
(ii) Apply transparent and uniform criteria for country and program selection, for new and continuing trust fund programs.

Extending the Analysis

Finally it must be recognized that the present report does not attempt to holistically cover all potential sources of long-term development finance and has limited itself to capital markets finance only. Although the report has alluded, in some places, to the impact of the banking system upon capital market development, a more complete treatment would require the development of a comprehensive perspective on different sources of long-term finance—and the role of the Bank Group's interventions, for example, vis-à-vis development finance banks. These areas are still to be evaluated.

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Endnotes

[1] Some potentially relevant areas have been omitted: for example, IBRD Treasurers' advice on the management of sovereign wealth funds, or Bank Group work on mutual funds. Market intermediaries have not been separately reviewed; nor have certain market building blocks: derivative instruments, money markets or repurchase agreements. In terms of market infrastructure, the evaluation omits corporate insolvency and creditor rights.

[2] The strategy is described in an internal PowerPoint presentation.

[3] Does financial development help the poor through better resource allocation and more information—or, conversely, does it inordinately help the rich, because the poor rely mostly on informal networks? Bank-supported and external research leans toward the former—in countries with stable financial systems. See Demirgüç-Kunt and Levine (2007); Clarke, Xu, and Zhou, (2006); Akhter and Liu (2010); Jeanneney and Kpodhar (2008), as well as the Technical Annex and Approach Paper for this evaluation. However, the relationships are complex and nonlinear. And studies that isolate the effects of capital markets as a component of the financial system, and poverty, are rare.

[4] Details of the availability of existing evaluative materials are available in Appendix A1.3.

[5] See Attachments 3, 4, and 5 of the Approach Paper to this evaluation.

[6] About two-thirds of all country-focused projects reviewed were in a handful of 25 countries over the sample period (see Attachments 4 and 5 to the Approach Paper).

[7] The countries included all regions and income levels and accounted for almost 60 percent of Bank Group country-focused interventions: three in Africa (Ghana, Kenya and Nigeria); three in East Asia (China, Indonesia and Vietnam); four each in Eastern Europe (Azerbaijan, Kazakhstan, Serbia, and Turkey) and Latin America (Brazil, Colombia, Costa Rica, and Mexico), two in the Middle East and North Africa Region, and four in South Asia (Bangladesh, India, Pakistan, and Sri Lanka).

[8] The six topics which had specialized annexes relevant to capital markets included Public Debt, Pensions, Insurance, Payments, and Housing Finance—as well as overall reviews of capital markets issues.

[9] IEG's major evaluation of the Financial Sector Assessment Program (FSAP) (IEG 2006b), points out that few FSAPs analyzed linkages between sectors. IEG's present analysis finds some improvement: coverage of capital markets–related issues in the pensions sector was relatively higher, at 22 out of 36 FSAPs, though only seven out of 33 FSAPs for insurance discussed investment rules.

[10] Kenya's FY04–07 Country Assistance Strategy (CAS) noted that the design of two financial sector operations reflected both FSAP findings and World Bank-country dialogue. Both the FY10–13 and FY14–18 Country Partnership Strategies refer to the post-FSAP update. In Brazil, the FY12–15 Country Partnership Strategy refers to an ongoing FSAP that would "help with stocktaking and charting the route ahead, as there is consensus that further development of capital markets … is fundamental to mobilizing the resources needed to ratchet-up the pace of investment."

[11] Prior to the 2008 FSAP, a capital market surveillance assessment was prepared in 2006 by the International Oranization of Securities Commissions (IOSCO), and a payments and securities settlement evaluation had been undertaken by the Arab Initiative for Payments and Securities Settlement Systems in 2007. These were clearly regarded as inputs to the 2008 FSAP and were discussed simultaneously with the authorities.

[12] Emphasized at the outset of the evaluation period in the post-Asian-Crisis environment, the need for domestic resource mobilization for heavily donor-reliant IDA countries that are about to graduate is

increasingly recognized today. Papaiannou, Das, Pedras, Surti, and Ahmed (2010), Anderson, Silva, and Velandia-Rubiano (2010) and Miyajima, Mohanty, and Chan (2014) are recent reaffirmations of the need for developing local bond markets. Even prior to the financial crisis, this was emphasized the G8 (2007) Action Plan for Developing Local Bond Markets in Emerging Market Economies, underpinned by the Bank for International Settlements (2007). It was reiterated after the crisis, with more -ased support, in the G20 (2011) Action Plan.

[13] Appendix 2.1 reviews Bank Group core partnerships and analytical contributions for bond market development.

[14] Compared to 115 bond market interventions listed in the Approach Paper.
[15] GEMLOC: Global Emerging Markets Local Currency Bond Program, launched at the World Bank in 2008; ESMID: Efficient Securities Markets Institutional Development program; and FABDM: Financial Advisory and Debt Management Program, under the World Bank's Treasury and Debt Management departments.

[16] SECO: Swiss State Secretariat for Economic Affairs; SIDA: Swedish International Development Agency. SECO and SIDA have also supported additional programs in the bond market development area.

[17] ESMID projects are here notionally attached to IFC as their budget entries are mapped to IFC. In order to avoid double counting, main ESMID projects are classified here as IFC projects, and the supporting projects are classified as World Bank projects, as they frequently relied on region-based World Bank staff.

[18] Africa as well as Latin America were significant beneficiaries, in terms of numbers of projects. In terms of value, the Africa region has been the single largest recipient of funds, at just over half the total (52.4 percent). This is essentially owing to the few but very large value ESMID projects in East Africa.

[19] In addition to SECO and SIDA, external funds under the FIRST program were also significant for World Bank projects reviewed here, as well as support from bilateral donors and a small number of reimbursable advisory services (see Chapter 7). GEMLOC and reimbursable advisory services are not funded by donors, but they are self-funding, earned by the programs in question, independent of network budget outlays.

[20] Initially in the Finance and Private Sector Development Global Capital Markets Practice, later in the Finance and Markets Global Practice.
http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/Brochure_GEMLOC_10-20-2008.pdf . Given the practice of completion reports for IFC advisory services, most GEMLOC advisory projects have completion reports, even though these have World Bank project IDs. These enable at least a review of the project's achievements, though there is no prior independent evaluation of these projects.

[21] Projects P106935, P108952, P115512, P108953 and P112316.

[22] See GEMLOC Advisory Services Survey: Key Priorities for Debt Market Development. (6/2009).

[23] Completion Summary: FY14 GEMLOC ASP Peer Group Dialogue (P147198; May 2014).

[24] World Bank. Completion Summary (P133209). (April 2013), and Concept Note Review Minutes for Issuer Driven ETF (P147208). March 2014. As of September 2015, the proposed ID-ETF had not been launched in Brazil due to decision-making lags.

[25] In Costa Rica, faced with a similar problem of fragmentation of debt on issue between the Treasury and the central bank, GEMLOC provided detailed guidance on unifying the public debt market.

[26] GEMLOC Kazakhstan: Government Securities Market Development Issues (P148390). As explained by the task team, the departure of key official sponsors, as well as a central bank decision to merge pension funds, together with a lack of clarity on investment regulations for the new pension funds, contributed to the withdrawal.

[27] Based on IEG discussions with market participants.

[28] The Asian Bond Fund 2 Initiative. Chan, Eric, et. al, BIS July 2011. The goal of this initiative is to enhance the development of the local currency bond markets in 8 Asian countries: China, Hong Kong SAR, China, Indonesia, Korea, Malaysia, Philippines, Singapore and Thailand.

[29] See GEMLOC Investability Indicators: CRISIL (2008) and GEMLOC Investability Indicator Methodology. Copal Amba. May 2014.

[30] Detailed in the Approach Paper for the present evaluation. These include, for example, Harwood (2000) on the benefits of bond markets, the World Bank and International Monetary Fund (IMF) (2001) first guide to developing government bond markets; the series of annual conferences on government debt markets jointly undertaken with the Organisation for Economic Co-Operation and Development (OCD), the 12-country World Bank/IMF pilot program on debt management and public bond market development (World Bank (2007a and 2007b), and most recently, the OECDm Bank Groupm and IMF jointly prepared diagnostic framework and action plan for local-currency bond market development (OECD 2013).

[31] Peer reviews were conducted on some of the GEMLOC Peer Group Dialogues (for example, for a cluster under P147198, on electronic trading platforms and on target cash buffers. Comments pointed toward the relevance of topic selection, the wide range of country participants, and the depth of the discussion.

[32]
http://www.ifc.org/wps/wcm/connect/RegProjects_Ext_Content/IFC_External_Corporate_Site/ESMID_Home/.

[33] Carana Corporation, (2009); Bourse Consult & Genesis Analytics (2013) and Analistas Financieros Internacionales (AFI) (2014).

[34] The evolution of funding of ESMID is discussed in Chapter 8. In November 2013, additional funding was made available to ESMID East Africa by SIDA amounting to around US$1.4 m. Recently, according to the Capital Markets team, funding from SECO has been extended by $15 million (2015).

[35] Projects 545164, P121995, P124057, P129763, 600053, P143456 and P149828, and Project 562707 (2008, $1.13 m) focused solely on Nigeria.

[36] The Treaty for Establishment of the East African Community entered into force on 7th July 2000 and included Kenya, Uganda and Tanzania. With the accession of Rwanda in June 2007, commitments toward regional integration were formalized, and the ESMID Program was both relevant and timely in its start in 2007 because it was able to integrate bond market harmonization into the move toward regional harmonization.

[37] Specific reports are mentioned in the Bank Group's completion report, including a market model report and a gap analysis for all the East African Community countries, a legal and regulatory report covering also costs of issuance and securitization, and proposing regulatory changes, a review of Kenya's investment guidelines, a review of secondary bond market structure for Rwanda and Tanzania, a regional bond issuance framework, trade reporting guidelines for Kenya, and an East African Community regionalization strategy and plan report.

[38] Nairobi Water and Sewage company, Kenya airports, City of Kigali Bus, Housing finance Co., Faulu Kenya, and the Uganda water corporation. Subsequent to the mid-term evaluation, however, a number of other transactions were identified, with four receiving support from ESMID and eventually coming to market and raising US$99 million, by 2015.

[39] IEG's Evaluation Note of 562707 (31 March 2015) refers to the following article: http://www.africanbondmarkets.org/en/news-events/african-bond-market-review/article/building-a-vibrant-domestic-bond-market-in-nigeria-61665/

[40] Projects P125844, P129766, P143049, P149833 and 578507.

[41] After the ESMID period, however, a first closure, on the Pacifica 3 project, a part of the 4G toll highway program was brought to closure in February 2016.

[42] See Chapters 6 and 8.

[43] The Financial Advisory and Banking - Debt Management Department (FABDM) of the World Bank's Treasury Department works closely, however, with the Public Debt Management (PDM) group under the World Bank's Macroeconomic Global Practice – formerly a part of the PREM group. Historically the focus of the Public Debt Management Group had been on low-income and IDA countries, largely financed by the multidonor Debt Management Facility (DMF) under the Public Debt Management group, while FABDM focused largely on IBRD countries. FABDM also implements the Government Debt and Risk Management (GDRM) program, initially funded by SECO, which is a programmatic medium-term approach to support middle-income countries in implementing debt management reforms.

[44] Evaluation of the World Bank Debt Management Facility (DMF) for Low-Income countries (LICs). Universalia, April 2014: "…developing the local currency bond market is a strategy that LICs should undertake over the longer-term in order to broaden their portfolio of debt instruments and to establish a more complete yield curve. This would help clients better manage their risk and cost options and provide a benchmark for the nascent corporate bond market. A module on local currency bond markets could be developed for inclusion in DMF training programs. The World Bank already provides services under its GEMLOC program to emerging-market clients, and might consider extending such services to its low-income clients."

[45] See capital market instruments to mobilize institutional investors to infrastructure and small and medium enterprise financing in Emerging Market Economies. Report for the G20. World Bank, IMF and OECD (2015). See also: A Multipronged Integrated Approach to the Development of Securities Markets: The Deep Dive. World Bank Report for the G20 Working Group for Investment and Infrastructure. August 2014, Jakarta.

[46] Interestingly, however, the recent IMF Article IV consultation for Colombia (June 2015) reports that simulations undertaken within Colombia suggest that the costs of such a program could be shouldered by its banking sector.

[47] Although the recent closure of a part of the deal for Colombia's 4G (fourth generation) toll highways has been an important step.

[48] Wolf Hammacher (2007), Garcia and Dalla (2005), EBRD (2013). *Offshore* bonds are registered abroad and denominated in local currency but actual settlement is generally in U.S. dollars. There are cleared through international clearing systems such as Euroclear. *Onshore* bonds are registered in the country of issuance and subject to local regulations including taxation and exchange controls.

[49] For example, IFC uses proceeds of local currency offshore bond issues to lend to clients in the onshore market matching liabilities (for example, masala bonds) and assets (for example, Indian rupee investments), sometimes at rates superior to what is feasible in the swap market.

[50] While IBRD Trasury shares the objective of supporting local capital market development, its practical ability to borrow competitively in local markets is limited by the sovereign nature of its clients.

[51] It is true that local currency onshore issues can also be immediately swapped back into dollars, in which case their proceeds cannot be used for local currency financing of investment. In case of large volume issues in small countries, potentially destabilizing effects on the local currency must be cautioned. Many of IFC's local onshore issues were swapped in the early years of this evaluation period, but most of the later ones were at least partially, if not entirely, retained in local currencies and used for investments.

[52] Including the first "green masala" bond, which was used to fund the purchase of a green onshore INR bond issued by Yes Bank, a masala Uridashi bond targeting Japanese retail investors and, most recently, a 15-year masala bond (the longest-tenor Masala Bond to date). These Masala bonds (excluding the

Uridashi) were all listed on the London Stock Exchange. IFC also issued a three-and-a-half year INR16 billion bond (US$250 million equivalent) under Phase II. As of April 30 2016, IFC issued INR 110 billion offshore (approximately $1. 73 billion) in seven tranches with tenors ranging from three to 15 years, thus establishing the first "AAA" offshore rupee yield curve. IFC invested INR 65 billion of masala bond proceeds in Indian corporate bonds.

[53] They were not, however, the first INR listings in the London exchange, as EBRD's INR offshore bonds of 2007 and 2011 had also been listed in London.

[54] Yet such programs are not without risk to the countries' currency. The Reserve Bank of India has had concerns about potential volatility of unregulated offshore currency movements (nondeliverable forwards), and has allowed investors to hedge such currency risk. In the long term, the key to the success for the masala bonds would be a relatively stable exchange rate and continued stability of economic indicators.

[55]

[56] IFC Treasury Local Currency and Capital Markets Development Program: Impact Evaluation Briefing, April 2015.

[57] Although the extension of maturities is generally considered beneficial, there is a caveat that to the extent that the investor base consists predominantly of banks, with short-term liabilities, longer maturities can also create vulnerabilities.

[58] Multilateral development banks may have an advantage when there are distortions in the domestic market, for example, owing to factors such as fiscal deficits, exchange controls, tax policies, or inefficient market infrastructure.

[59] The return on the bond was not linked to the consumer price index (CPI) but to a customized index called the NES Russian Inflation Target Index, which was linked to a basket of commodities. The index sponsor stopped maintaining the index in December 2014 and no substitute index has replaced the customized index. Bondholders complained because no index-linked coupon was paid although the CPI was clearly positive. The National Pension Authority changed its investment guidelines, eliminating investments in international financial institutions. Other market participants believe this may be linked to the IFC issue, though there is no clear evidence for this. As of January 2016, IFC offered to buy back one of the outstanding bonds at a price well below par (88.08 percent) which was accepted by the majority of the investors. The situation with the other two bonds, which are still outstanding, remains unclear.

[60] In Kenya, the Capital Markets Authority reports discussions with IFC for a local currency bond issue in 2009; however, necessary approvals were not obtained.

[61] IBRD subsequently issued 27 Colombian peso–denominated bonds in Luxembourg.

[62] Standard & Poor's noted in their 2015 report on IFC that the decline in their risk-adjusted capital ratio "reflects the larger emerging markets sovereign exposures as part of the treasury portfolio, resulting in a single-name concentration that is $6 billion higher in 2014 (a 64 percent year-over-year increase)." This concentration risk, largely in India, was contrasted with other multilateral development banks, where it arose from purpose-related lending.

[63] See Chapter 6 Appendix 6.1.

[64] IFC's Emerging Markets Database and emerging market stock indices effectively introduced the emerging market asset category to investors. The indices were first published in 1981, presenting monthly prices on the most active stocks in 10 markets, with a history of prices back to 1975. Additions and refinements to the indices continued until, at the time of the transfer of the indices to Standard & Poor's in 2000, the main indices covered a total of 33 countries, with an additional 18 covered by a set of frontier indices. As a corollary, the term "emerging markets" was coined. Van Agatmael (2007).

[65] In private equity funds, a set of investors (known as the limited partners) provide capital in the form of equity to a fund manager (known as the general partner) to invest in target (investee) companies that are privately held and have not issued public equity. The nature of those investee companies determines the nature of the fund, which could be restricted by geography, sector, or strategy.

[66] IFC committed US$5.4 billion in 280 private equity funds during 2000–15, making it the largest emerging market "fund of funds." In terms of its convening role, together with Cambridge Associates; IFC also holds an annual Global Conference on private equity, currently in its 18th year.

[67] Using December 2014 equity valuations. The use of results only for funds originated during 2004–09 reflects the need to accept that returns for active equity investments less than five years into their life are often not indicative of their final return. This is especially true in the case of private equity funds, where it would be preferable to use returns for closed funds only, which is typically after about 10 years. Calculating returns prior to close implies using interim valuations for investments not yet liquidated, which is susceptible to a variety of errors. The 44 percent with negative returns is similar to the results achieved for IFC direct equity investments, although the results for private equity funds have historically been less volatile than direct equity investments, with far fewer having extremely negative outcomes.

[68] Under Basel II, securitization of mortgages reduced capital charges on banks' balance sheets.

[69] The initial IFC investment helped some savings and loan institutions to transform into banks and continue to access long-term finance at attractive conditions through securitizations and also complemented a sizeable World Bank Financial and Private Sector Development financial sector adjustment loan, which was used to pay for the savings and loan restructuring and clean-up, and to rebuild the foundations of a sounder housing finance system.

[70] Fund for Housing Operations and Finance (FOVI) Restructuring Project, for which the World Bank approved a loan of US$500 million on March 4, 1999. The loan was closed on June 30, 2005, and was rated Moderately Satisfactory in an IEG PPAR of 2010.

[71] Sociedades Financieras de Objeto Limitado: limited-purpose, non-deposit-taking nonbank financial institutions with activities in a variety of sectors, including mortgages. A large part of their funding was through public development banks. They grew rapidly after the 1995 Tequila crisis, when banks stopped lending, but collapsed with the U.S. subprime and global crises.

[72] IFC investment clients Hipotecaria Credito y Casa SA collapsed owing to soaring bad loans and mounting refinancing difficulties, while Metrofinanciera SA, a major lender to builders, restructured under prepackaged bankruptcy protection after defaulting. IFC client Su Casita and its group, which obtained equity and warehouse lines of credit but eventually filed for bankruptcy. During this time, commercial banks started to regain their market share in mortgages, some of them by acquiring the most successful Sofoles (such as IFC client HipNat). The total collapse of the Sofoles was only avoided by the intervention of Sociedad Hipotecaria Federal (SHF), the development bank that had initially nurtured the growth of the mortgage Sofoles, by providing emergency credit lines and credit enhancements which allowed a small number of them to survive.

[73] IFC's counterpart was a state-owned bank with implicit state support that helped the rating that this paper received.

[74] Mortgage guarantees, as they are known in India, for regulatory reasons (or mortgage insurance in most other parts of the world) compensate lending institutions or housing finance companies for losses that may arise when a homeowner defaults on a mortgage loan. Mortgage guarantees enable people to get home loans with a lower down payment, and also makes it easier for lenders to offer home buyers loans with improved terms.

[75] During the period when the loan was being negotiated, the original pricing and structure became unattractive to RBSec because it was able to obtain cheaper funding with less onerous underwriting standards.

[76] Additional countries are discussed in IEG's parallel paper on Bank Group support to Housing Finance (April 2016), which mentions a successful project in Jordan (where the Bank Group contributed importantly to institution building).

[77] This loan, sponsored by the World Bank's Sustainable Development department, emphasized the housing aspects, with less attention to financial sector development issues. However, the institution is now planning to issue a first mortgage-backed security in 2016 in U.S. dollars, in which they have obtained help from the IFC securitization team.

[78] Projects 25052 (IFC), 548566 (IFC), 554071 (IFC) and 93470 (WB). IFC conducted the first technical assistance program (548566) in 2006 with funding from the PEP-Mena trust funds.

[79] http://ieg.worldbank.org/Data/reports/Egypt_Mortgage_Finance_PPAR.pdf

[80] http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/GHFC_2021_Rished_Bade.pdf

[81] Other countries where work on covered bonds has been undertaken or is ongoing include Turkey, Poland, Azerbaijan, Mexico, Peru, in addition to Brazil, Morocco, and India. Work is now under way in South Africa (EFO).

[82] Provided the design and regulatory environment are conducive. See Appendix A6.1 for a more in-depth discussion.

[83] Institutional investors can also include hedge funds, mutual funds, and sovereign wealth funds; World Bank contributions in these areas are not reviewed here.

[84] In its 2007 strategy for the financial sector the Bank Group focused on the supply of securities: "The growth of funds in the hands of institutional investors (mutual funds, pension funds, insurance companies) is generally outstripping local economies' ability to supply suitable assets." More recently (2015) the World Bank focused on savers as well as eventual investment in infrastructure: "enable households to have access to diversified savings and investment instruments, to buffer the poor against the risks …and to finance investments in infrastructure and housing."(Non-Bank Financial Sector Institutions Service Line, Financial and Private Sector Development Network.)

[85] Discussed in Appendix 5.1 – e.g., the difference between Chile and Malaysia. These issues have also been discussed in World Bank (2015) on Long-term Growth.

[86] Insurance products such as annuities are in fact similar to pensions.

[87] According to its mission statement the pension team works with client countries to (i) deliver pension reforms; (ii) develop better data and new solutions and (iii) disseminate new knowledge. The aim is to improve the outcomes of a pension system, including efficiency, sustainability, security, coverage (inclusion), and adequacy that mark out a robust pension system. World Bank (2015), Putting Pensions to Work, Financial and Private Sector Development Network.
http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTFINANCIALSECTOR/0,,contentMDK:22400080~menuPK:6620578~pagePK:210058~piPK:210062~theSitePK:282885,00.html

[88] There were three regional projects and five country-level projects in Europe and Central Asia, one regional and nine country-level projects in Latin America and the Caribbean. In addition there were four in Africa, five in East Asia, three in the Middle East and North Africa, and just one in South Asia.

[89] Morocco Capital Market Development and SME finance DPL of April 2014 (P147257).

[90] Documentation was not available in two cases, and was poor for another two.

[91] As requested by management of the Bank Group (dated March 13, 2015), operations with no clear implications for capital markets should not be included. In its comments on IEG's approach paper, Bank Group management underscored the importance of "limiting coverage of pensions, insurance, and housing to the extent these entities are operating in the capital markets in their capacity as issuers/investors, and not looking at the development of these businesses in general." In observance of

this request, IEG further eliminated from coverage any operations that did not directly or indirectly attempt to influence the development of capital markets through one of the following objectives: (a) contributions to the regulatory and legal environment; (b) support for growth of investible funds; and (c) improvements of the returns on investment, including corporate governance or operational efficiency.

[92] The Implementation Completion and Results Review reports outcomes as highly successful. There was a decrease of the state share in the insurance sector from 67 percent in insurance premiums written in 2006 to less than 30 percent in 2010. Life and non-life insurance business lines were separated by 2011.

[93] Documented results were available for only six of these investments, including two extended supervision reports (XPSRs), two evaluative notes, and six final reports in the development outcomes tracking system.

[94] Moreover, public ownership has been a defining feature of the insurance system: about 69 percent of insurance premiums and 80 percent of insurance assets are accounted for by public insurers, with one large public company dominating life insurance, limiting the development of a competitive industry.

[95] Specialized technical notes were prepared on both the insurance and pensions sectors in 2004, and again on the pension sector in 2010, together with an International Association of Insurance Supervisors (IAIS) Core Principles assessment in 2010. The FSAPs (notably in 2004), inter alia, did address issues pertaining to asset management and investment. Detailed recommendations for insurance included a review of investment regulations so as to align them with international standards. On pensions, the FSAP suggested separating the asset manager from investment advisor to limit problems of conflicts of interest. It also commented on investment limits, asked for maturity and liquidity matching requirements, and for concentration (individual issuer) limits.

[96] One of the PDO result indicator of the Kenya Financial Sector Support Program Loan of 2015 is "long-term assets held by pension funds." The objective was to unlock regulatory barriers to investment diversification into more capital markets instruments. The ESMID program worked with the Retirement Benefits Authority to revise investment guidelines and to provide training on alternative investment options. ESMID is currently supporting the Insurance Regulatory Authority in Kenya on a similar initiative, and, also, the authorities in Tanzania and Uganda. Similarly in Nigeria, work with the pension regulator, PenCom, was a significant and core part of the project which supported revision of investment guidelines and capacity building for pension fund administrators. Yet continued limited asset allocation to infrastructure-related investments appears to reflect a lack of attractively packaged products.

[97] These engagements will take time to bear fruit because the new independent insurance and pension supervisor has just become operational (Feb 2016).

[98] This report includes institutional, legal, regulatory and policy framework aspects under the heading of infrastructure. This is a somewhat wider perspective than the use of the term by global standards-setting bodies, who refer exclusively to clearinghouses, securities settlement systems, CCPs and Central Securities Depositories.

[99] These projects were selected to represent countries in all World Bank regions; each country selected had more than one pertinent intervention.

[100] Azerbaijan Financial Sector Modernization (P125462), 2012–2016. $2.15 million.

[101] Financial Sector Reform and Strengthening Initiative (see also Chapter 8).

[102] One project, Azerbaijan P125462, was financed by the SECO Trust Fund and two projects in the West Bank and Gaza (P117448 and P117420) were financed by the Bank Group Trust Fund for the West Bank and Gaza. Funding for the programmatic project, Columbia P133789, was from the World Bank's budget; however, this umbrella was linked to several distinct Bank Group activities funded from a variety of different sources.

[103] In the Pakistan Country Partnership Strategy of April 2014, there was no specific information concerning the ongoing Capacity-Building Project. Although the Pakistan Country Partnership Strategy of July 2010 identified “Strengthened Competitiveness and Governance of Markets” as a Pillar I objective, there was no specific reference to capital markets projects.

[104] This issue is more extensively discussed in Chapter 8.

[105] The 12 reports included three rated highly satisfactory, six rated satisfactory, one rated fully achieved, and two rated largely achieved.

[106] Significant delays in execution were noted in the Securities and Exchange Commission of Pakistan (SECP) Capacity-Building project of 2005. Though the reasons appear to be exogenous to the project, they appeared to reflect a changeable political environment in which the achievement of results may well be difficult. Yet project performance was self-rated satisfactory. Notwithstanding the delays, a second grant, Capacity Building of Institutions of Capital Markets (2011 $380,000), was awarded to extend the work. Significant delays were also noted in project execution in the Sri Lanka project for the Amendment to SEC Act (2011) and Development of NBFI Sector (2014). Although the first project was estimated to take approximately 1.5 years, completion required more than 2.5 years. According to the closing report, ”This was mainly due to the fact that there were significant disruptions in leadership in the SEC with two Chairmen having resigned due to political interference.” The closing report also claimed that nonetheless “all activities undertaken were delivered within the initial approved budget for this project.” Other documents indicated, however, that that not all activities originally planned were in fact undertaken and completed; for example, the portion of the project focused on the draft Takeovers and Mergers code was canceled.

[107] Final reports were found for nine of the 13 FIRST-funded projects, and for nine of the 16 non-FIRST projects. Fourteen of the 18 reports were reviewed (translations of four reports were not found).

[108] Comments by the task team leader in the Grant Report to the effect that the Vietnam State Securities Commission (SSC) believed that this project was “the best donor supported project at the SSC to date” are corroborated by IEG’s field visit.

[109] The Securities and Exchange Commission of Sri Lanka website indicates that the most recent amendments to the Securities Act occurred in 2009. Available at: http://www.sec.gov.lk/wp-content/uploads/SEC-Act-Revised-Edition-2009.pdf.

[110] The FIRST evaluation conducted a survey of host nation/client representatives. The results illuminate the significant gap between successful outputs and successful outcomes. The report points out that “With regard to outputs, 87 percent of clients reported that the project produced all of the deliverables they expected. However clients reported that in 62 percent of the projects the recommendations had been fully implemented. In 23 percent, there was some implementation, and in 8 percent of projects there was no implementation.”

[111] Three were broadly implemented and one partially implemented.

[112] Source, CSE website, “About Us”, available at: https://www.cse.lk/aboutus.do.

[113] See NSE website, Corporate Governance. Available at: http://www.nse.com.ng/aboutus-site/corporate-governance/corporate-governance-overview.

[114] Early demutualization had occurred in India, however, at the turn of the millennium. And recently, though outside the period of the present evaluation, Morocco’s law on demutualization was passed in April 2016.

[115] “The proposed regulatory framework may be in compliance with international standards (e.g., IOSCO) but poorly adapted to the state of development of the local market: The primary mitigating strategies for this risk will be to put in place a robust consultative process with relevant stakeholders to ensure a

iterative process in terms of adapting international standards to local environment and the selection of consultants with strong experience working in markets at different stages of development."

[116] Morocco's experience with covered bonds and securitization illustrates the importance of timing and a conducive macro environment. The instruments were developed in 2012–14 but there were virtually no transactions givn the prevailing quantitative easing by the central bank. Similarly, securitizing small and medium enterprise (SME) loans will be challenging until the central bank discontinues its advantageous SME window.

[117] Clearance, settlement, and depository arrangements also have "soft" aspects—rules and laws that govern their operation.

[118] Garcia, Guadamillas. and Montes-Negret (2007): Reforming payments and securities settlement systems in Latin America and the Caribbean. Appendix A4.3 details the regional initiatives.
[119] Cirasino and Nicoli (2010) summarizes the work of the Arab Payments Initiative.
[120] In conjunction with these, the World Bank manages a new database, the Global Payments Systems Survey, undertaken every two years in 150 countries.

[121] E.g., Guadamillas and Keppler (2001); De la Lastra, Guadamillas, Holttinen, and others (2002); and Cirasino and Guadamillas, (2004).
[122] See Appendix 6.4 for a description of this portfolio and a list of projects with core content.

[123] Even in interventions with high clearance, settlements, and depository systems content, this may not have been a stated project objective, especially in the case of lending projects. Of the 14 out of 30 high content lending projects, 10 described broad objectives (for example, the Financial Infrastructure and Markets project in the Democratic Republic of Congo, stated that the project objectives were "to modernize payments infrastructure and increase availability of term financing to MSMEs"). Advisory projects were typically more specific: for example, a FIRST study for Establishing a Central Security Depository in Vietnam, and a fee-based service in the Bahamas which focused clearly on an assessment of the migration plan of government securities to the Bahamas International Securities Exchange in terms of robustness, safety, and efficiency.

[124] Such as Argentina (2006; P103302), Ethiopia (2014, P149104), Peru (2014, 147360), Tajikistan (2014).

[125] In Morocco, the Capital Market Development and SME Finance Project in 2014 aimed at development of the legal and regulatory framework of derivatives settlement systems. The Dominican Republic's reimbursable advisory service "Legal Framework for Securities Settlement Systems" in 2015 contributed to the legal infrastructure for securities transactions.
[126] Appendix 6.5 describes risk reduction through real-time gross settlement systems and its links to securities clearance and settlement.

[127] Examples are the Financial Sector Capacity-Building project in Ethiopia, the Financial and Legal Sector Technical Assistance Project in Kenya, and the Debt Market Development project of Mozambique (all in FY14).
[128] For example, the Turkey FY12 Financial Sector Development Technical Assistance project, aimed to reform the clearing and settlement systems to achieve compliance with CPSS-IOSCO recommendations.

[129] For example in Yemen, in 2012 the World Bank conducted an assessment of financial infrastructure and based on that, two interventions followed; a Financial Infrastructure Loan (2014) as well as a FIRST advisory intervention: Improving Financial Infrastructure (2013).

[130] One example is Rwanda, where a core project component, the Government Securities System, was for the transfer of government and central bank securities; Ethiopia is another example.

[131] Details of the articulation of Bank Group strategy toward infrastructure finance, including the use of capital markets instruments, is given in Appendix 7.1, which also discusses World Bank knowledge contributions on the theme of project finance.

[132] The portfolio selection is detailed in Appendix 7.2. Housing finance however is not included.

[133] At a global level, see Gray and others (1997), Dailami and Hauswald (2003), historically, and recently, Bond, Daniel (2014) and Bravo, Fernando, (2014) Garcia-Kilroy (2014).

[134] Representing 40 from the Approach paper and one additional recent project in Costa Rica.

[135] Illustrating the difficulties of separating housing from the urban sector, and the difficulty of separating either from infrastructure. Capital markets codes sometimes appear in interventions related to housing finance, owing to the mention of mortgage-backed securities.

[136] Two public-private partnership projects in India were not included in the analysis because they are ongoing and have no final reports. However, a review of their project objectives and description in the Concept note suggests relevance. One attempts to design a financing framework which can leverage private sector funds, including financing from capital markets if feasible, for the renewable energy sector. The other reviews requirements for the use of capital markets for infrastructure financing.

[137] The "Strengthening Subnational Fiscal Capacity for Infrastructure Financing" Technical Assistance I in Indonesia claimed to improve awareness of subnational capital markets for municipal bonds while the "Jakarta Fiscal and Bond Issue" technical assistance provided debt management advice and a credit rating assessment to the provincial government of Jakarta.

[138] Nairobi Water and Sewage company, Kenya airports, City of Kigali Bus, Housing finance Co., Faulu Kenya, and the Uganda Water Corporation.

[139] PRIDE Tanzania (a microfinance institution), Consolidated Bank, Centum Investment, and Athi River Mining – largely financial intermediaries, with one exception.

[140] In parallel to the launch of ESMID in East Africa, there was a significant spike of about $430 million in corporate bond issues in the area of telecommunications infrastructure because of two large issues: KenGen and Safaricom. However, ESMID admits to having only a minor role in these issues.

[141] See Chapter 2. There are additional advanced examples of Deep Dives besides Colombia, including Peru and South Africa, and other experimental programs to develop capital market solutions to finance infrastructure; for example, a project under preparation in Brazil to develop a new class of local currency project bonds for domestic pension funds, with specific enhancement from the government to mitigate risks. These efforts are still under way and therefore too early to evaluate; however they reflect Bank Group efforts to develop a comprehensive approach to the large-scale challenge of financing infrastructure through capital markets and to leverage institutional investors.

[142] Pacifico 3, the first Project of Colombia's ambitious fourth generation (4G) infrastructure program to reach financial close (February 2016).

[143] For guarantees for sovereign and sub-sovereign bond issues, in addition to infrastructure bond issues for public-private partnership transactions, a Bank Group–wide working group has been established to better align client funding needs with the full spectrum of Bank Group offerings.

[144] IEG reviews data prior to the evaluation period because it sheds light on significant changes in patterns of World Bank support, as described below.

[145] Philippines: a geothermal power plant; Lebanon: power sector restructuring, Thailand Electricity generating authority, and a Jordanian telecommunications project.

[146] Observers point out, however, that that a large proportion of the bonds were "stripped" from the start, by "conduit buyers "because of a shortage of long-term investors who reissued them as 1-year rolling notes under a new name without the guarantee. This outcome illustrates that guarantees on their own cannot ensure the offtake of longer-dated paper if market appetite is limited.

[147] Although these data reflect information available to World Bank management, they refer to the Finance and Private Sector Network, which was the organizational structure until 2014. The Capital Markets practice is one principal directorate, distinct from Financial Systems and Financial Inclusion. It

therefore omits payments and securities clearance and settlement, but includes the entirety of the nonbak financial institution group.

[148] Excluding one outlying observation for the Financial Systems practice, in 2014.

[149] Looking at ESMID in East Africa as an example, there were eight projects in the evaluation period, including three managed by IFC: (545164; 600053, and one focused solely on Nigeria: 562707) and five under the World Bank: P121995, P124057, P129763, , P143456 and P149828. Yet work in these projects was seamlessly undertaken across World Bank and IFC codes. Of the total of 14 ESMID interventions in IEG's bond market portfolio, five are mapped to IFC.

[150] A detailed analysis of SECO and SIDA contributions toward the ESMID programs by year corroborates this result **(**Appendix Table A8.1**).**

[151] In addition to contributions toward the ESMID program, SECO also funded three Government Bond Market projects that were not a part of ESMID, with total funding of $1.2 million: P129817 (South Africa Government Debt); P129819 (Colombia) and P129818 (Peru); these account for the difference between the totals in Table 8.1 and Appendix Table A8.1, which focuses only on the ESMID program. In addition, Table 8.1 also reflects the aggregation of bank budget contributions to ESMID in project data.
[152] Details of the program may be found at http://www.firstinitiative.org//

[153] The FIRST portfolio is categorized at a high level by main sectors, while subsector and thematic categories provide added granularity. For the purpose of this evaluation, selective additional codes were added under the financial infrastructure, insurance, and pensions categories to attempt to match the FIRST definitions to those of the present evaluation.

[154] In Vietnam, there was also good coordination and mutual sharing with the Asian Development Bank on the capital markets agenda, despite an early understanding (2002) that the Asian Development Bank would take the lead in this area.

[155] Funding from FIRST has now been stable for more than a decade. Periodic external evaluations of the FIRST program 2009, 2011 (including a client survey), and 2014, mandated by its governing body, confirm that in general, work quality is good and that most FIRST programs achieve their desired outputs. Yet questions about project selection have been raised in recent evaluations.

[156] However, samples are small and t-tests of differences are not statistically significant.

[157] Poor documentation in the case of bond market work could be partially owing to the programmatic clustering of projects, sometimes with a single detailed final evaluation (as in ESMID East Africa), or to the nature of the projects as in GEMLOC, which took the form of repeat conferences, surveys of participants, etc., which do not lend themselves to the core document cycle described above.

[158] In the present evaluation, this lack of documentation in the usual repositories was compensated by personal solicitations from staff, as well as by the "complete enumeration" evaluation approach adopted for both the relevant topic portfolios and the country case studies. This implied that about two-thirds of relevant projects, by project ID, have been reviewed, on average, as discussed in the preceding chapters.

The World Bank Group's Support to Capital Market Development

Appendixes

Abbreviations

AAA	analytic and advisory activities
ABMI	Asian Bond Market Initiatives
ABS	asset backed securities
ADB	Asian Development Bank
AfDB	African Development Bank
AMC	Asset Management Company
AS	advisory services
BETF	Bank-executed trust fund
BIS	Bank of International Settlements
CAB	Climate Awareness Bond
CAS	Country Assistance Strategy
CAT	Catastrophic Risk (bonds)
CBR	Central Bank of Russia
CCD	certificate of capital development
CEMLA	Center for Latin American Monetary Studies
CG	Corporate governance
CHMC	Colombian Home Mortgage Corporation
CMA	Capital Markets Authority (Kenya)
CIS	Commonwealth of Independent States
CPI	Consumer price index
CPMI	Committee on Payments and Market Infrastructures
CPS	Country Partnership Strategy
CSD	clearance, settlement, and depository systems
DA	Distressed asset
DARP	Debt and Asset Recovery Program
DFI	Development financing institution
DFID	Department for International Development (UK)
DMF	Debt Management Facility
DOTS	Development Outcome Tracking System
DPL	development policy loan
DPR	Diversified payment receipts
EAC	East African Community
EAP	East Asia and the Pacific
EBRD	European Bank for Reconstruction and Development
EFO	Externally financed output
EIB	European Investment Bank
EMDE	Emerging Markets and Developing Economies
EMRC	Egyptian Mortgage Refinance Company
ESMID	Efficient Securities Markets Institutional Development program
ETF	Exchange Traded Fund
F&M	Finance and Markets
FABDM	Financial Advisory and Debt Management program
FDN	*Financiera de Desarrollo Nacional* (National Development Fund)
FIRST	Financial Sector Reform and Strengthening Initiative
FOVI	*Fondo de Operacion y Financiamiento Bancario a la Vivienda* (Mexico)
FPD	Finance and Private Sector Development
FSAP	Financial Sector Assessment Program

GBP	Green Bond Principles
GEMLOC	Global Emerging Markets Local Currency Bond program
GEMX	Global Emerging Markets Local Currency sovereign bond index
G20	A group of 20 major economies including 19 countries and the European Union
GDP	Gross domestic product
GOI	Government of India
IADB	Inter-American Development Bank
IAIS	International Association of Insurance Supervisors
IBRD	International Bank for Reconstruction and Development
ICRR	Implementation Completion and Results Report
IDA	International Development Association
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group
IFFIm	International Finance Facility for Immunization
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commission
IPO	initial public offering
ISDA	International Swap and Derivatives Association
LAC	Latin America and the Carribean
LNG	Liquified Natural Gas
MDB	Multilateral Development Banks
MBS	Mortgage-backed securities
MIGA	Multilateral Investment Guarantee Agency
MILA	*Mercado Integrado LatinoAmericano* (Integrated Latin American securities exchange)
MosPrime	Moscow Prime Offered Rate
M&E	Monitoring and Evaluation
NBFI	Non-bank financial institution
NMRC	Nigeria Mortgage Refinance Company
NPL	non-performing loans
NSE	National Stock Exchange (Kenya)
OECD	Organization for Economic Cooperation and Development
PBCE	project bond credit enhancement
PCG	Partial Credit Guarantee
PCR	Project Completion Report
PDM	Public Debt Management
PE	Private equity
PMI	Primary mortgage institution
PPP	Public-Private Partnership
PRI	Principles for Responsible Investment
PSD	private sector development
RAS	Reimbursable Advisory Services
ROSC	Reports on Observance of Standards and Codes
RTGS	Real Time Gross Settlement
RUONIA	the Ruble Overnight Index Average
SEB	Skandinaviska Enskilda Banken
SEC	Securities and Exchange Commission
SECO	Swiss State Secretariat for Economic Affairs
SIDA	Swedish International Development Cooperation Agency
SME	Small and medium enterprise
SOFOLs	*Sociedades Financieras de Objeto Limitado* (Mexico)

SPV	Special purpose vehicle
SRO	Self-regulatory organization
SSA	Sub-Saharan Africa
SSS	Securities and Settlements System
TA	technical assistance
TC	*Titularizadora Colombiana*
TD	Treasury Department
TMD	Treasury Mobile Direct project
TTL	task team leader
UN	United Nations
USAID	United States Agency for International Development
VBMA	Vietnam Bond Market Association
WB	World Bank
WBG	the World Bank Group
WHI	Western Hemisphere Initiative
XPSR	Expanded Project Supervision Report

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Contents

ABBREVIATIONS I

ACKNOWLEDGMENTS V

CONTENTS VII

APPENDIXES TO CHAPTER 1 1

Appendix 1.1: World Bank Group Strategy Towards Capital Market Development 1
Appendix 1.2: Capital Markets, Financial Development, Economic Growth and Poverty Alleviation 6
Appendix 1.3: WBG Evaluative Material on Capital Market Development 11
Chapter 1 Appendix Tables A1.1 to A1.5 14

APPENDIXES TO CHAPTER 2 18

Appendix 2.1: WBG Global Advisory Contributions and Partnerships for Local Bond Market Development 18
Appendix 2.2: IFC's Bond Purchases and Bond Guarantees 20
Appendix 2.3: Bond Market Development and WBG Interventions: IEG Case Study Countries 21

Vietnam 21
Kenya 23
India 26
Colombia and Morocco 29

Appendix 2.4: Monitoring Local Debt Markets: Notes on FinDebt and Bloomberg 34
Appendix 2.5: Experience of Other MDBs in Local Currency Financing 37
Appendix Figure A2.1 IFC's Local Currency Bond Issue Program 43
Chapter 2 Appendix Tables A2.1 to A2.4 44

APPENDIXES TO CHAPTER 3 48

Appendix 3.1: The WBG and Public and Private Equities Markets 48
Appendix 3.2: A Variant of Private Equity - Distressed Assets and the DARP Program 49
Chapter 3 Appendix Tables A3.1 and A3.2 51

APPENDIXES TO CHAPTER 4 53

Appendix 4.1: Housing Finance Projects Reviewed. 53

APPENDIXES TO CHAPTER 5 54

Appendix 5.1: Institutional Investors – Investing in Long Maturity Capital Market Instruments? 54
Appendix 5.2: Specialized Insurance –Disaster Risk Reduction, Agriculture and Trade Insurance 56

APPENDIXES TO CHAPTER 6: 57

Appendix 6.1 Capital Market Regulation and Development: Projects Reviewed 57
Appendix 6.2: Supporting Good Corporate Governance 59
Appendix 6.3: The Western Hemisphere Initiative and Other Regional Payments Initiatives 77
Appendix 6.4: Payments Projects Analyzed 78
Appendix 6.5: Risk Reduction with Real Time Gross Settlement (RTGS) and Link to Securities Clearance 80

APPENDIXES TO CHAPTER 7 .... **81**

Appendix 7.1: – WBG Strategy Towards Infrastructure Finance 81
Appendix 7.2: Infrastructure Portfolio Identification 84
Appendix 7.3: – IFC Guarantees and Performance Bonds for Infrastructure: Extracts from Board documents 85
Appendix 7.4: – Infrastructure Project Bonds- Other IFIs and Country Models 87
Appendix 7.5: – Supporting the Environment and Other Priority Sectors: Green Bonds and Theme Bonds 90
Chapter 7 Appendix Tables A7.1 to A7.5 99

APPENDIXES TO CHAPTER 8 .... **105**

Chapter 8 Appendix Tables A8.1 to A8.3 105

Appendixes to Chapter 1

Appendix 1.1: World Bank Group Strategy Towards Capital Market Development

1. **WBG strategy towards capital market development has been scattered across the respective strategic Board documents of each institution, in relevant if not official internal powerpoints and presentations, and in related real sector areas**. Strategic implications for capital market development can also be discerned in infrastructure strategy documents, as well as in documents specific to particular service lines, such as the non bank financial sector service line. All these are summarized below.

IFC STRATEGY TOWARDS CAPITAL MARKETS

2. **At the IFC, the importance of the financial sector in general, and specifically, capital markets has long been recognized**. Initially the strategy was implicit, but powerful, beginning with the establishment of the Capital Markets Department in the 1970s with the mandate of providing technical assistance, advisory services and institution building investment. Its early emphasis was on trading platforms (it supported several stock exchanges), as well as country level support. Its Korea Country Fund helped to put the country on the investment map. IFC's Emerging Market Growth fund was a pioneering success despite early skepticism. IFC helped the emergence of a new asset class, as well as the most comprehensive source of emerging markets stock market data in its Emerging Markets Database, and additionally, the construction of early emerging markets indices.[1]

3. **IFC maintained a strong focus in most of these areas during the period under review (2004-2014), although there may have been some shifts in emphasis of different elements of its support.[2]** Its Strategic Directions (2004) identified strengthening the focus on frontier markets, as well as maintaining the focus on local financial markets development, as among its core priorities. It pointed out that governments and corporates were increasingly unwilling to take on unhedged foreign currency exposure, at the same time as international banks were shying away from developing country risks. Included in its agenda for developing local financial markets were providing advisory services, helping financial institutions address important environmental, social, and corporate governance issues, together with a growing emphasis on housing finance as well as SME and microfinance activities

[1] IFC's Antoine van Agtamel has been credited with coining the term 'emerging markets' in the 1980s; later described in his pioneering volume 'the Emerging Market Centrury' (van Agtmael, 2007). Barger (1998) documents the IFC's early contributions in this area.
[2] IEG has found only a limited number of interventions directly concerned with equities market development across the WBG, numbering around 19.

4. **Promoting local currency financing and developing local financial markets remained a focus in the** Strategic Directions FY08-10 **document**, in three ways: working alongside the World Bank to create supportive policy, legal and regulatory frameworks; investing and providing technical assistance to financial institutions; and helping build the necessary financial infrastructure for such institutions to operate effectively. A strong real sector focus also remained: support to SME finance together with housing finance, and support for corporate goverance.

5. **In tandem, IFC (2008) established its Securities Markets Advisory Services line, mentioning for the first time a joint IFC-WB team, to create local currency securities markets**, particularly bond markets, and also clarifying that its two pillars consisted of government and non-government bond market development. While not in a Board document, these goals were spelled out in detailed presentations. The former pillar was targeted at the reduction of government financing risk and the creation of benchmarks, and the latter aimed to support real sector finance for housing, infrastructure and the private sector, as well as to mobilize savings and provide investments for institutional investors. GEMLOC and ESMID were mentioned as the wo complementary pillars of this strategy, and from the outset, the funding model was heavily focused on the 'public private partnership' model of GEMLOC, as well as donor funding through ESMID and other external sources. IFC (2011a), another presentation, provides a detailed stocktaking of ESMID and GEMLOC.

6. **IFC then prepared a presentation (2011bb), that spelled out for the first time a comprehensive and focused capital market development strategy.** It affirmed support to issuers, intermediaries, investors, and the development of market infrastructure, with the building of government and corporate bond markets (especially for real sector engagement). It also suggested a re-engagement in equities markets, with a focus on smaller companies, as key elements, and acknowledged the impracticalities of small local capital markets in countries with few large firms. Inter alia it suggest a low priority for support to broker-dealers, rating agencies, and investments in exchanges. It also affirmed the need for greater coordination with the IFC Treasury. At a country level, it pointed out the need to move away from one-off engagements, towards a comprehensive, 'deep dive' approach. In parallel, IFC's Treasury recognized the need to provide local currency financing for it clients, and has moved beyond loans to bond issuance, derivatives and swap products as well as to structured finance and securitization through guarantees and risk sharing facilities (IFC 2010, and IFC 2014).

7. **In IFC's most recent strategy, the 'Road Map for 2015-2017;' IFC reiterates the focus on frontier markets, as well as on the need to develop local capital markets, especially in the context of infrastructure and real sector finance**. It also emphasizes the need to leverage its investments to promote good corporate governance and environmentally and socially responsible investment.

WORLD BANK STRATEGY TOWARDS CAPITAL MARKET DEVELOPMENT

8. **At the World Bank, there have been fewer formal articulations of financial sector strategy but its most recent strategy, of March 2007, named capital market development as one of two areas that would receive special attention**. "With respect to capital markets, in addition to the ongoing diagnostic, emphasis will be given to motivating regulatory reforms via specific initiatives including the promotion of a global local currency bond fund and the expansion of the corporate governance program to cover financial institutions. In addition, a deepening of Bank advisory work is envisaged in areas where public policy issues are major and moral hazard looms large, particularly the financial sector aspects of pensions systems, catastrophe insurance products, and low-income housing. Development in these areas will also be supported through IFC investments and their inclusion in Bank lending operations." It emphasized the continuing central role of the Bank in providing systemic policy advice and lending support to governments, and also pointed out that in the area of capital markets, partnerships with the IMF, OECD and standard setting bodies, would be integral elements. Its forward looking agenda proposes a continuation of ongoing diagnostic work, especially FSAPs, as well as, in particular, the promotion of local currency bond markets, the deepening of Bank advisory work for financial sector aspects of pensions systems, catastrophic insurance products, low-income housing, and building financial infrastructure, especially, payments systems. As of early 2016, a new formal financial sector strategy is under preparation.

9. **The Bank's 2007 strategy was translated into a broadbased description of its activities on the FPD website, which reaffirmed that** "The mission of the Capital Markets Practice is to help clients build robust, fair and sustainable markets that contribute to financial stability and economic growth. As a joint Practice of the World Bank and the International Finance Corporation, the Practice helps clients develop their capital markets, strengthen their corporate governance frameworks, and oversee their Non-Bank Financial Institutions (NBFIs).

10. **One noteworthy feature in terms of the articulation of the strategy into the WBG organizational structure, however, was the separation of the Capital Markets Development and Corporate Governance Service Line, and the Non-Bank Financial Institutions Service Line.** Thus the The Capital Markets Development and Corporate Governance Service Line described its business as "developing domestic securities markets - notably bond and equity markets - to help emerging market countries develop local currency funding solutions, improve risk management capabilities, improve pricing benchmarks and yield curves, diversify and improve financial systems beyond traditional bank products, and provide new asset classes to accommodate the needs of ever expanding pool of institutional investors. The Service Line also focuses on improving corporate governance in listed companies, financial institutions and state-owned enterprises (SOE), in order to improve access to finance, risk governance, and company performance, resulting in responsible and productive institutions that contribute to sustainable economic growth and financial stability." There was no articulated link to NBFI service line, which stated that "The goal of the Non-Bank Financial Institutions Service Line is to develop

sound and accessible insurance, housing finance and pension fund markets, and provide related policy and regulatory guidance on the development of non-bank financial institutions and markets."

11. **The 2007 Strategy makes special note of the importance of the supply of capital market instruments for institutional investors.** "The growth of funds in the hands of institutional investors (mutual funds, pension funds, insurance companies) is generally outstripping local economies' ability to supply suitable assets".

12. More recently (2015) the WB focused on savers as well as eventual investment in infrastructure: "enable households to have access to diversified savings and investment instruments, to buffer the poor against the risks …..and to finance investments in infrastructure and housing."(Non-Bank Financial Sector Institutions Service Line, Financial and Private Sector Development Network.)

FSAP STRATEGY AND CAPITAL MARKETS

13. **There has also been an evolution of the role of the WB in the global financial sector architecture, that increases emphasis on the WB role in developing financial systems.** Some changes are reflected in the periodic Board documents reviewing the FSAP program. Especially after the global crisis, there was an increase in the role of the IMF in surveillance activities (reflected in the role of the Fund as a member of the Financial Stability Board) and a corresponding increase in the role of the WB in the structural development aspects of countries' financial systems, especially in poorer countries.

INFRASTRUCTURE FINANCE AND CAPITAL MARKET DEVELOPMENT

14. **In parallel, there have been numerous articulations of the WBG role in mobilizing infrastructure finance, that *inter alia* have important implications for the development of capital markets instruments.**[5] At the outset of IEG's review period World Bank lending for infrastructure had dropped from US$10.6 billion in 1993 to US$5.4 billion in 2003. This led to the formulation of an Infrastructure Action Plan (IAP), FY04-07, to revitalize the institution's engagement in infrastructure, followed by subsequent Action Plans for FY 09-11 (which identified a $1 trillion gap in financing needs), and the most recently updated World Bank Group Infrastructure Strategy FY12-15, which lays out the framework for transforming the Group's engagement in infrastructure.[6]

15. **Specific mention of capital markets financing for infrastructure has received varying degrees of emphasis**. Thus the Action Plan for FY09-11 inter alia discussed both global and local capital markets as a possible source of infrastructure financing, to be supported by IFC's Global

[5] See http://siteresources.worldbank.org/INTSDNET/Resources/5944695-1241627159876/SIAPfinal.pdf
[6] Infrastructure Strategy Update FY12-15: Transformation Through Infrastructure. http://siteresources.worldbank.org/INTINFRA/Resources/Transformationthroughinfrastructure.pdf

Financial Markets group. It also mentioned exploring use of WBG risk mitigation products and asset backed securities, and it emphasized the need to support PPP for infrastructure finance. The more holistic recent strategy for FY12-15 takes a broad view of what is required—in terms of partnership, knowledge, advice, and projects—for infrastructure to accelerate growth. It emphasizes the need for transformational engagement and recognizes the need to mobilize private capital and the importance of building public private partnerships. It mentions the need for support to capital market development as one element along the spectrum of PPP activities.

16. **The present broad based approach of the WBG has been reaffirmed in the international sphere, where huge if nebulous financing deficits are discussed** - e.g., the WBG umbrella report to the G20 on Long-Term Investment Financing for Growth and Development (2013); statements of the G20 Investing in Infrastructure working group (2014) on the need for long term infrastructure investments, to the tune of $2 trillion; and the 2015 Addis Ababa Action Agenda, which points to a "1 trillion to $1.5 trillion annual gap".[7] Most recently, during the 2015 IMF World Bank Annual Meetings in Lima, Peru, the WB's MD drew attention to the need to mobilize capital market resources through institutional investors, such as pensions funds, and to fill the funding gap for infrastructure in the developing countries.[8] Moreover the 2015 Global Financial Development Report focuses on the provision of long term finance, significantly in the context of capital market development.[9]

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[7] Addis Ababa Action Agenda – Third International Conference on Financing for Development July13-16,2015. It states that "…Investing in sustainable and resilient infrastructure, including transport, energy, water and sanitation for all, is a pre-requisite for achieving many of our goals." http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf ; G20 –Policy Note "Increasing Investment in Infrastructure" –August 2014 (Australia)

[8] http://live.worldbank.org/infrastructure-investing-for-growth-and-people. These Annual meetings (October 2015) also showcased the recently established $100 million WB Global Infrastructure Facility, set up in April 2015, and pointed towards $1 trillion of unmet demand for infrastructure demand in emerging and developing economies (EMDEs).

[9] Long Term Finance. (2015), World Bank.

Appendix 1.2: Capital Markets, Financial Development, Economic Growth and Poverty Alleviation

1. The following note reviews available literature in terms of the relation between financial sector development and economic growth as well as poverty reduction and inequality reduction. It also provides summary information on the recent evolution of capital market development of countries at different income levels. To the extent that information is separately available on the capital market segment of the financial system, it is provided. The relative scarcity of information on capital markets' effects, as a distinct segment of the financial system, is not surprising as available evidence points towards the complementarity of bank driven and market driven financial systems, with an increase in the relative share of the latter as countries grow and develop.

FINANCE AND GROWTH

2. Financial systems help to allocate capital, mobilize and pool savings, monitor investments, facilitate risk diversification and management, and ease the exchange of goods and services (Levine 2005). Evidence of a causal link between *financial depth* and economic growth was traced by King and Levine (1993), in a multi-country study that showed that financial development *predicts* long-run economic growth. While this initial assessments of the link between finance and growth was focused on banking as the measure of financial sector development, Gerschenkron (1962), Allen and Gale (2000) and Demirguc-Kunt and Levine (2001), provided theoretical and empirical reasons to look at the financial sector beyond banks as a driver of growth. Beck and Levine (2005) expanded the analysis to include stock markets and found that the size of the banking sector and stock market development were both positively related to economic growth. Extending this further, Fink, Haiss and Hristoforove (2003) found that in addition to banks and stock markets, bond market development also influences economic activity.

3. Levine (2002, 2005) based on an empirical examination, shows that classifying countries as having bank-based versus market-based financial systems is not very fruitful. Although overall financial development is robustly linked with economic growth, there is no specific support for either the bank-based or the market-based view. As pointed out by IEG (2006a) 'Research on the best mix of financial institutions, in terms of bank-based systems versus market-based (capital markets), shows a striking lack of results. Rather, it is the overall level of financial sector development, regardless of which structure dominates, that matters for growth. Thus, whether to promote the establishment or expansion of capital markets in a country will depend on the circumstances, including the ability of the country to reduce informational asymmetries.'

4. Studies also showed that financial depth influences not just the level of economic activity, but also the nature of real sector activity, and the industrial structure of an economy. Capital market development encourages industries that need external finance (Rajan and Zingales1998), Demirguc Kunt and Maksimovic (2000) also show that stock market development is more related to the availability of long term financing, whereas banking sector development is more related to short term finance. While Beck, Demirguc-Kunt, Laeven and Levine (2004) suggest that financial development, overall, disproportionately helps small firms, Didier and Schmukler (2013) point out that larger firms, especially, benefit from stock and bond market access in some prominent emerging economies.

FINANCIAL SECTOR DEVELOPMENT & CAPITAL MARKETS

5. The extent to which *financial structure (*bank-based versus market-based) affects economic growth has also been explored, and the implications of financial structure on growth. Cross-country empirical research (reported by Levine 2005) finds fairly consistently that there is no single preferred system, even for financially-dependent industries, or firms with external financing needs. Overall, the conclusion from the literature to date is that while financial sector development is good for growth, the financial structure adopted by a country is less important. However, Demirguc-Kunt, Feyen and Levine (2011) find that as countries develop they increase their demand for the services provided by securities markets relative to those provided by banks. Bank-based structures tend to dominate in the early stages of growth, but the relative importance of banks decreases as economies develop.

FINANCE AND MACROECONOMIC VOLATILITY

6. The financial sector has played a contributing role in many, if not most, of the economic crises that have taken place in recent years. The implications of such events on both growth and poverty are significant. Even before the 2008 crisis, Easterly, Islam and Stiglitz (2000) found that the development of the financial sector as measured by both bank credit to the private sector and stock market traded value are negatively related to macroeconomic volatility. But they also pointed out that while bank credit is negatively related to macroeconomic volatility, the relationship is not linear; above a certain level of credit, financial sector development adds to macroeconomic volatility. This is similar to the finding of Arcand, Berkes and Panizza (2012), who find that financial sector development, defined in this case as private credit to GDP, is positively related to economic growth, until it reaches 100 percent of GDP, beyond which it has a negative impact.

7. The development and expansion of capital markets, and indeed financial markets as a whole, is not without risk. Instability may limit the impact of financial development on poverty alleviation. Banking, a central part of most financial systems, is highly leveraged and has been prone to exaggerated credit cycles that sometimes end in crisis, and there are some signs of increasing global levels of leverage and possibly nascent bubbles in the real economy. The

greater role of capital markets in more developed financial systems can diversify some risk away from banks, dampening overall economic effects of shocks to the banking system. Yet, in a changing world, technological shifts have introduced new forms and delivery mechanisms of financial services that bear their own risks.[1] And dynamic changes in global financial structure, in a post-crisis environment, including regulatory shifts in the banking system, could shift risks towards 'shadow banks' and capital markets, and towards emerging as opposed to developed markets.

8. Caprio and Klingebiel (2003) showed that fiscal costs of financial crises often exceeded 20 percent of GDP. Bordo et al. (2001), determined that twin (banking and currency) crises have led to cumulative GDP losses on the order of 18 percent, and Halac and Schmukler (2004) discuss the significance of regressive wealth transfers unleashed by financial crises. During the course of the 2008/09 financial and economic crisis, it was estimated by the World Bank that an additional 53 million persons were plunged into poverty in the developing world. Banking, a central part of most developed and developing financial systems, is highly leveraged and has been prone to exaggerated credit cycles that sometimes end in crisis. But historical evidence informs us that in fact financial crises are more frequent in developing than in developed countries, likely due to better macroeconomic policy, regulation and supervision (Reinhart and Rogoff (2009)). And the greater role of capital markets in more developed financial systems diversifies some risk away from banks, dampening overall economic effects of shocks to the banking system.

FINANCE, POVERTY AND INEQUALITY

9. Does financial development help the poor through better resource allocation and more information? Or does financial development inordinately help the rich, because the poor rely mostly on informal networks and family? Beck, Demirguc-Kunt and Levine (2007) and Clarke, Xu and Zhou, (2006) find that that financial development, measured by growth in private credit, disproportionately boosts incomes of the poorest quintile of the population and reduces income inequality. Akhter and Liu (2010), using a broader measure of financial development that includes non-bank financial institutions, find that financial development helps the poor in countries with stable financial systems. However instability may limit the impact of financial development on poverty alleviation; a caution echoed by Jeanneney and Kpodhar (2008). Perez-Moreno (2010) also points out that it is the moderately poor that clearly benefit. Kim and Lin (2011), using measures of both bank and stock market development, also find that the relation

[1] Certain complex institutional and legal structures are deliberately designed to fall outside the traditional purview of regulators. 'Shadow banking'structures provide an example, and they are not new, nor are they illegal, untaxed, or unmonitored. While these complex structures may use capital markets as financial intermediaries for transactions that would likely have previously involved banks, this is primarily a challenge for regulators in the most developed financial markets. Credit derivatives are another recent example. And certain market processes, such as high frequency trading, now increasingly present in the larger middle income countries, also carry own risks of exacerbating volatility.

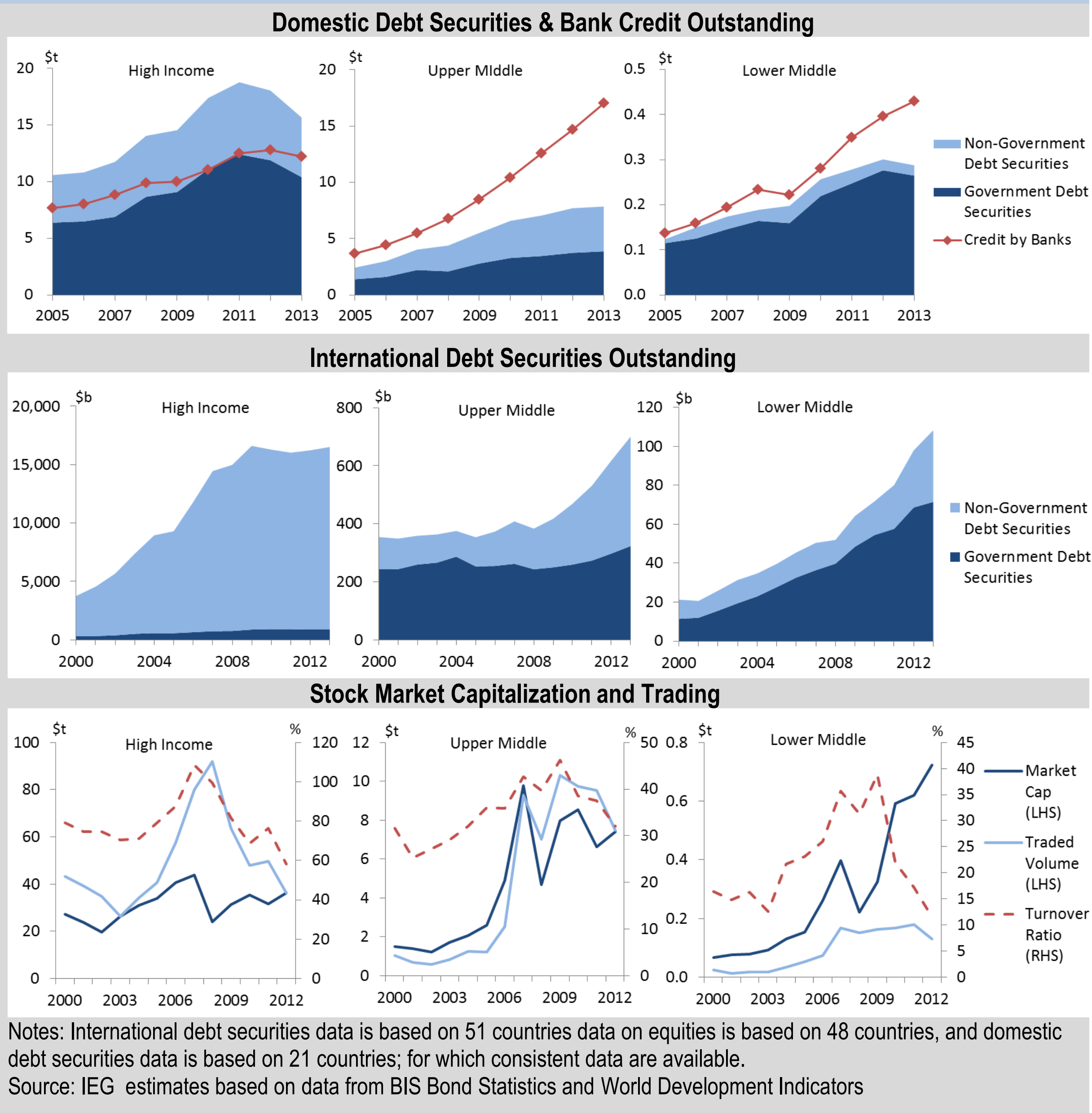
between financial development and inequality depends on the development level the country has reached. Studies on individual countries also exist, though most use bank-based measures of financial development. Ayyagari, Beck and Hoseini (2013) also find that financial development is strongly associated with poverty reduction, a result echoed for Kenya by Odihambo (2010) and for Pakistan by Imran and Khalil (2012), using bank based data. Jalil and Feridun (2001), in a study on China which uses a wider spectrum of financial development variables, also finds that increased financial development will reduce income inequality in China. Studies that isolate the effects of capital markets as a component of the financial system, and poverty, are rare, as are those that use stock market development alone as a proxy for wider financial development.

10. It should be added that some recent arguments suggesting a link between capitalism, inequality and instability, e.g., Piketty (2014), are not linked to capital markets. His argument is against the tendency of capitalism, in general, to concentrate wealth in the hands of capitalists. There is not a single variety of capitalism and some countries, for example, Sweden and Japan, operate capitalists systems with well-developed capital markets and low inequality. Rajan and Zingales (2009) also recognize the inherent problems with capitalism, but argue that financial markets offer a way out of poverty when they are well managed and developed. Galbraith (2014) offers four factors impeding a return to normal growth after the 2008 crisis, among which is the breakdown of law and ethics of the financial sector, but he does not differentiate between the financial sector and capital markets.

CAPITAL MARKET DEVELOPMENT IN WBG CLIENT COUNTRIES (2005-2014)

11. During the period covered by this evaluation, capital markets, especially debt markets, grew rapidly in WBG client countries, much more so than in high income countries. International debt issues by lower middle income countries have grown particularly rapidly. However, both domestic debt issues and international debt issues by lower and upper middle income countries remain dominated by government securities. Domestic debt issues remain lower than bank credit, which is growing at a faster pace than the debt market, indicating an overall increase of leverage even if not from capital markets (Appendix 1Figure A1.1). The traditional problem for emerging economies was a lack of credit. In some emerging economies, this is no longer the case as indebtedness has increased significantly and bubbles may well have already inflated. There is also some emerging evidence that easy global liquidity conditions may have led to a surge in some emerging market firms' bond issuance in international markets, largely for refinancing and securing lower rates and longer maturities (Feijen et. al, 2016). The shift towards safer maturity structures may have come at the expense of a leveraging-up in foreign-currency-denominated financial debt and there are trade-offs between these risk structures (Bastos et. al 2015).

Figure A.1.1 Global Growth of Credit, Debt and Equity (2000-2013)



Notes: International debt securities data is based on 51 countries data on equities is based on 48 countries, and domestic debt securities data is based on 21 countries; for which consistent data are available.
Source: IEG estimates based on data from BIS Bond Statistics and World Development Indicators

12. Stock markets have grown too, but the pace of growth has faltered and become erratic after the global crisis. And although the numbers of listed companies has grown perhaps the most rapidly in lower middle income countries, trading volumes have not kept pace with market capitalization, and turnover ratios (trading value as a proportion of market capitalization) have in fact declined.

Appendix 1.3: WBG Evaluative Material on Capital Market Development

1. Few major IEG evaluations have discussed issues relevant to financial sector development, and there are no major IEG evaluations of the WBG role in capital markets development. In IEG's major evaluations on the financial sector, references to the role of the WBG in capital market development are scarce. IEG's most comprehensive review, of WB support for overall financial sector reforms (2006a), the report mentions that only 22 percent (of financial sector projects) included capital market reform as a component; the Bank's lending tended to target banking and bank-like financial institutions. Inclusion of this area was more frequent in East Asia and Latin America (30 percent) and much lower in Africa (14 percent) and even East Europe (18 percent). The evaluation itself did not explore issues related to outputs or outcomes of such interventions; however it includes changes in stock market capitalization and trading value as a measure of outcomes of WB interventions in the overall financial sector in specific countries. Countries that were Bank borrowers for the financial sector and those that were not did not show any difference in changes in these parameters.

13. IEG's second major financial sector evaluation of the past decade, of the Financial Sector Assessment Program (2006b), pointed out that while the quality and thoroughness of FSAP banking sector analyses were consistent, there was greater variability in the coverage and quality of the analysis of other sectors, including non-banks, likely reflecting their small size in many countries covered. And few FSAPs analyzed the linkages between sectors - for example only a third of detailed FSAP reviews had an integrated discussion of insurance issues and capital markets and investment. A number of FSAPs discussed the need to expand the insurance and pension sectors, and to diversify asset holdings (which would help develop capital markets), but failed to discuss the lack of available investment instruments. It noted that nurturing local currency bond markets should be a policy objective for many countries and that more and better information on these markets is needed.

14. In the WB Pension Reform evaluation (IEG 2006c), capital market development was explicitly included as one element of the secondary goals of pension reform, to be supported by the design of multi-pillar, funded, defined contribution pension schemes. In terms of findings, the report shows that diversification of pension funds' investments was not achieved and in many cases pension investments remained concentrated in government securities markets, under tight investment guidelines – possibly reflecting macroeconomic constraints. On the whole capital market development was not observed in case study countries despite the introduction of multi-pillar systems, although government debt maturity increased somewhat.

15. One relevant evaluation that covered both the WB and the IFC is the IEG (2009) review of the WBG's Guarantee instruments. The report points to the differences and similarities in partial credit guarantees (PCGs) offered by both institutions. In terms of outcomes, it shows that such guarantees have helped public agencies tap bond markets for better terms than they would

have received without guarantees. Most public agencies that accessed capital markets under the PCGs subsequently accessed commercial markets again, without guarantees. In Jordan, the PCG helped the telecom utility become the first Middle Eastern corporation to tap the Eurobond market. The Jordan operation also involved the participation of the local capital market, facilitating mobilization of domestic foreign exchange deposits. A Colombia operation enabled Colombia to reestablish access to U.S. capital markets at a time when investor interest was minimal. In Argentina, although the country was able to access non-U.S. capital markets at similar terms, the PCG enabled it to issue a significantly larger bond ($1.2 billion) than would otherwise have been possible at the time.

16. Although coverage of capital markets in IEG macro and sector evaluations is thin, IEG does have individual project evaluations for a small proportion of the portfolio. Out of 421 IFC investment projects in the included portfolio, 202 are old enough to have been reviewed, 55 have XPSRs/PESs (self-evaluation), and 40 of the 58 projects have completed IEG EvNotes. As regards advisory services in the review portfolio, 60 of the 87 are completed and thus eligible for review. Evaluations of IFC AS only cover completed projects that were approved after January 2006 on a sample basis. Out of 87 projects in the review portfolio, 20 were active projects in portfolio and 19 were approved before January 2006, thus were excluded from evaluation sampling by design. Thus, though IEG ratings are only available for 21 IFC AS in the portfolio, about 60% of the projects eligible for evaluation have been reviewed by IEG when including the six projects not yet finalized.

17. Even on the lending side, roughly a tenth of the IFC projects evaluated had IEG validated reviews.[2] Out of 421 IFC investment projects in the included portfolio, 58 had XPSRs/PESs (self-evaluation), though only 40 of the 58 projects had been reviewed by IEG and had IEG EvNotes. On the WB side, 87 projects were included in the portfolio, of which 67 were closed and just over half (47) had an IEG validated ICR review.

18. On the WB side, ICRRs are available for 47 out of 67 closed projects, out of a total of 87 projects in the IEG portfolio. However, there is no evaluative coverage of the large body of 476 WB AAA, as there is no self-evaluative or independent evaluation convention for AAA at the WB/ IEG. Task team led AAA completion reports have limited information.

16. In terms of performance, out of the 47 evaluated lending products at the WB, a large proportion - 39 or 83 percent - received satisfactory ratings (highly satisfactory, satisfactory,

[2] IEG only reviews IFC investments they deem as "mature", which generally occurs five years after commitment, but can take longer. 219 of the 421 IFC investments in the portfolio were committed in fiscal year 2010 or later, thus have not been evaluated by IEG at this point. Further, IEG does not review follow on investments and excludes certain other types of projects including those aimed at product development. Thus, only 161 of these projects met the criteria for evaluation. Of these, 58 have XPSRs/PESs (34 percent), though only 40 of the 58 projects have completed IEG EvNotes and thus have recognized ratings.

and moderately satisfactory). Performance at IFC was more mixed. Of the 40 EvNotes reviewed by IEG, less than half projects were given a satisfactory rating by IEG. As regards IFC's advisory services, 13 of the 21 IEG reviewed projects were given satisfactory ratings, 6 were given unsatisfactory ratings, and 2 were determined to be too early to judge.

17. Although there is limited coverage in IEG evaluative material, there are independent external evaluations of some segments of the WBG capital markets portfolio, due to their considerable trust fund financing, and the demand for such evaluations by the funding donors. Thus, the FIRST program had monitoring and evaluation reports in 2009, 2011(undertaken by a team of former IEG staff) and 2014 (USC DPMG). There have been country specific evaluations of the Vietnam capital markets work and corporate governance interventions (Adam Smith International, 2013). The ESMID program has had evaluations of its interventions in Africa (Genesis Analytics, 2013) and in Latin America (Analistas Financieros Internacionales).

18. Other IFIs do have major evaluations in the capital markets area. Most recently, EBRD has undertaken an evaluation of local currency operations, including bonds and swaps (EBRD 2013), and the Asian Development Bank has undertaken a more broad-based evaluation of its capital markets operations (ADB 2008).

Chapter 1 Appendix Tables A1.1 to A1.5

Appendix Table A1.1 IEG Identification of WBG Capital Markets Portfolio (2004-2014) (Nos.)

	IFC AS	IFC Investments	WB AAA	WB Lending	Total
Capital Markets Projects Identified	87	421	476	87	1071
1. Developing Capital Markets Instruments					
IFC - Private Equity and Investment Funds	7	288			295
IFC – Bond Issues and ABS for Investments (excl infrastr)		53			53
WB / IFC Bond Markets Advisory	13		81	21	115
WB / IFC Housing and Mortgage securities	21	46	63	17	147
2. Supporting Capital Market Investors					
Insurance	8	24	92	26	150
Pensions			34	6	40
3. Building Capital Markets Infrastructure					
Capital Market Regulation, Supervision	1		23	1	25
Capital Market Development incl. FSAP, ROSC follow up	3	2	52	4	61
Payments / securities' clearance and settlement / securities exchanges	2	2	18	3	25
Corporate Governance	32		73	3	108
4. Using Capital Markets to Support Real Sector Investment					
Financing Infrastructure		6	40	6	52

Source: IEG. Note: For IFC the table excludes Projects Dropped, Terminated, or Not Yet Approved (Pipeline)

Note: Five of IFC's projects involving bonds (two guarantees of bonds and three bond purchases) were used for infrastructure projects while one of IFC's asset-backed securities' guarantees was also used for infrastructure.

Appendix Table A0.2 Desk Review Portfolio by Country Income Level (64 countries)

Country Groups	IFC AS	IFC Investment	WB AAA	WB Lending	Total	% Total
High Income	7	23	26	2	58	8%
Upper Middle	24	131	121	30	306	45%
Lower Middle	27	98	115	28	268	39%
Low Income	2	10	32	7	51	7%
Total	**58**	**259**	**289**	**65**	**671**	100%

Source: IEG

Appendix Table A1.3 FSAP Follow up in IEG's Capital Markets Portfolio: Advisory and Lending Services

	WB AAA			FIRST TA or Advisory			WB Lending		
Countries	Ref to FSAP	Follow FSAP in 5 years	Total AAA in Country	Ref to FSAP	Follow FSAP within 5 years	Total FIRST in Country	Ref to FSAP	Follow FSAP in 5 years	Total Lending in County
Azerbaijan		2	3	1	2	3			2
Bangladesh	1	5	5						
Brazil		3	7			2		1	2
China	1	2	12			2			
Colombia	1	8	11	3	5	5	2	5	6
Costa Rica		2	2	2	3	3		1	1
Egypt, Arab Rep.		6	6				5	6	6
Ghana		2	4					1	1
India	1	11	17			3		1	5
Indonesia	1	5	12		2	4			1
Kazakhstan	1	7	7						
Kenya	2	9	10		2	2	2	2	2
Mexico	1	8	8				2	8	8
Morocco		4	4	2	4	4	4	4	4
Nigeria	1	5	9			1	1	1	1
Pakistan		2	3	1	2	2	1	2	2
Serbia		3	4		1	1	1	2	2
Sri Lanka		2	3	2	4	4		1	1
Turkey	2	5	5	1	1	1	1	1	1
Vietnam		1	10	1	1	3			1
Total	**12**	**92**	**142**	**13**	**27**	**40**	**19**	**36**	**46**

Source: IEG

Table A1.4 Country Program Support for Capital Market Development (2000-2014)

By Country	High	Med	Low	No Info	Country Avg.
Does the CAS mention overall financial sector reform / development as an area of WBG support?	34	22	8	0	2.42
Does the CAS mention WBG support for capital markets development?	15	26	18	5	1.79

By Time Period	FY00-08	FY09-14	% Chg.
Does the CAS mention overall financial sector reform / development as an area of WBG support?	2.47	2.31	-0.07
Does the CAS mention WBG support for capital markets development?	1.92	1.62	-0.16
Avg.	**2.20**	**1.96**	-0.11

By Time Period and Country		FY00-08		FY09-14		% Change	
Regions	Countries	Overall financial sector reform?	Overall support for cap mkt devt?	Overall financial sector reform?	Overall support for cap mkt devt?	Overall financial sector reform?	Overall support for cap mkt devt?
AFR	Ghana	1.5	0.5	2.0	2.0	33%	300%
	Kenya	3.0	3.0	2.5	2.5	-17%	-17%
	Nigeria	3.0	2.0	3.0	2.5	0%	25%
EAP	China	3.0	3.0	1.0	0.0	-67%	-100%
	Indonesia	2.0	2.0	3.0	2.0	50%	0%
	Vietnam	3.0	1.5	2.0	1.0	-33%	-33%
ECA	Azerbaijan	2.0	1.5	3.0	3.0	50%	100%
	Kazakhstan	1.5	1.5	3.0	1.0	100%	-33%
	Serbia	2.5	1.0	2.0	0.0	-20%	-100%
	Turkey	2.0	1.0	2.0	1.0	0%	0%
LCR	Brazil	3.0	2.0	1.0	1.0	-67%	-50%
	Colombia	3.0	3.0	3.0	3.0	0%	0%
	Costa Rica	3.0	3.0	2.5	1.5	-17%	-50%
	Mexico	2.7	2.3	2.0	2.0	-25%	-14%
MNA	Egypt	3.0	2.5				
	Morocco	2.0	2.0	2.5	2.0	25%	0%
SAR	Bangladesh	2.0	1.0	3.0	2.0	50%	100%
	India	3.0	3.0	1.0	1.0	-67%	-67%
	Pakistan	2.5	2.0	3.0	2.0	20%	0%
	Sri Lanka	2.0	1.0	2.0	0.5	0%	-50%
Total		**2.5**	**1.9**	**2.3**	**1.6**	**-8%**	**-19%**

Legend:							
	Improvement	**100% or more**		**Over 50%**		**0-50%**	
	Deterioration	**-100% or more**		**-50%-100%**		**-1 to -50%**	

Source: IEG

Table A1.5 FSAP References in CASs: Timeframe and Nature of Reference

Country Name	Timeframe of FSAP Del.				Description FSAP Reference					Total
	Prior to CAS	Concurrent with CAS	Forthcoming FSAP	No Mention	Mentions capital markets	Selectively mentions capital market relevant	Refrs to banking or other areas of finance	Reference s part of work program only	No mention	
Azerbaijan	1		2				1	2		3
Bangladesh	1		1	1	1			1	1	3
Brazil	2	1		1	1			2	1	4
China	1			2			1		2	3
Colombia	2	1					2	1		3
Costa Rica	2	1			1		1	1		3
Egypt, Arab Republic of	1	1			1			1		2
Ghana	3				1		1	1		3
India	1	1		2				2	2	4
Indonesia	1	1	1	1	1			2	1	4
Kazakhstan	2			1			1	1	1	3
Kenya	1	2			3					3
Mexico	3			1			3		1	4
Morocco	2		1	1	1	1	1		1	4
Nigeria	1	1		1		1		1	1	3
Pakistan	1	2				1		2		3
Serbia	2	1					2	1		3
Sri Lanka	2	1					1	2		3
Turkey	1			2				1	2	3
Vietnam		3			1		1	1		3
Grand Total	**30**	**16**	**5**	**13**	**11**	**3**	**15**	**22**	**13**	**64**

Source: IEG

Appendixes to Chapter 2

Appendix 2.1: WBG Global Advisory Contributions and Partnerships for Local Bond Market Development

1. **WB attention to bond markets, and especially local bond market development, accelerated after the Asian Crisis of 1997,** reflecting the widespread view that an important reason for the Asian crisis was the relatively poorly developed local capital market, leaving these countries dependent on external capital flows. Dalla et al (1995), in the WB East Asia department, presented a pathbreaking review of nine emerging Asian bond markets. In-depth individual country studies were undertaken (e.g., Kumar, 1997a), together with strategies for bond markets for infrastructure finance, including subnational and municipal finance (el Daher, 1997, Gray et. al., 1997, Dailami, 2003, Freire and Peterson 2004). Harwood (2000) also discusses, in a conference edition, the benefits of local bond markets. More broadly, Harwood and Smith (1997) address the sequencing of capital markets reforms. Kumar et. al (1997b) and Carmichael and Pomerleano (2002) discuss the regulation of the non-bank financial sector and Litan, Pomerleano and Sundararajan (2003), in a joint WB / IMF / Brookings conference, recognized the role that local capital markets play in mitigating risks associated with cross-border capital flows.

2. **Strong external partnerships, notably with the IMF and with the OECD, were established to provide support for bond market development.** Reasons for developing long-term bond markets to support monetary and fiscal policy were clearly recognized even prior to the financial crisis, in the G8 (2007) Action Plan for Developing Local Bond Markets in Emerging Market Economies. Underpinning the G8 Action plan was a BIS (2007) report by the Committee on the Global Financial System, discussing the benefits of local currency bond markets for financial stability. These messages were reiterated after the crisis, with more broad based support, in the G20 (2011) Action Plan.

3. **The OECD, in parallel to early Bank efforts, organized a review of specific issues associated with capital markets in transition economies (OECD 1997),** which later developed into a joint OECD-World Bank -IMF Global Bond Market Forum (Blommestein and Harwood, 2011). Interestingly, during the 2008 crisis the EBRD recognized the lack of domestic financial markets as a key cause of volatility in its client countries (EBRD 2010, 2014). The World Bank and IMF (2001) produced a first guide to developing government bond markets. Soon after, a series of annual conferences on government debt markets were jointly initiated, together with the OECD. More market specific studies followed in the period under review, including a 12 country World Bank/IMF pilot program on debt management and public bond market development (World Bank (2007a and 2007b), which emphasized the uniqueness of each country case and the length of time needed for results. Bakker and Gross (2004) and Iorgova

and Ong (2008) examined EU accession countries' capital markets development. An in-depth analysis of the Brazilian public debt market was prepared jointly by the World Bank and the Brazilian government (Silva et al, 2007). Sophastienphong (2008) investigated South Asia's bond markets, and Garcia-Kilroy and Silva (2011) examine government bond markets in five countries in MENA. And most recently, the OECD WBG and IMF jointly prepared a diagnostic framework and an action plan for local currency bond market development (OECD 2013). These build upon former OECD has a long tradition of involvement in government debt management, viewed by some as a cornerstone of any financial sector. Its original Green Book on public debt management was first published in 1983, revised in 1993 and again in 2002, providing an overview of trends in the markets and a discussion of important policy issues.

4. **Meanwhile, factors affecting bond market development were also explored by the WB Treasury**. Sienaert (2012) examined the role of foreign investors in local government debt markets. From the research perspective, Claessens, Klingebiel and Schmukler (2013) show that institutional and macroeconomic factors are related to the development of government bond markets, as echoed, external to WBG, in Rojas-Soares (2014) and Laeven (2014). And at present, the forthcoming DEC Global Financial Development Report (2015), focused on developing markets for long term finance, also reviews WBG efforts at supporting capital market development in client countries.

5. **Corporate bond markets also became the focus of attention although empirical research documenting the impact of capital markets development on firms remains limited**. As early as 2001, Gallego and Loayza show that in Chile, firm investment became less constrained as capital markets developed. Most recently, Didier and Schmukler (2013) suggest that while beneficial, typically the larger firms have gained the most in India and China. The IMF Financial Stability Report (2005), discussed relevant challenges and policy issues, followed by WBG research on the regulatory framework, impediments, and domestic vs. international issuance. At the country level, the World Bank undertook a comprehensive review of the corporate bond market in India (Marathe, WB 2006). Recent attention in the non-government bond area has shifted towards the development of project bonds, especially for infrastructure financing, given their prospective benefits in terms of cost of finance and complementarity with other sources (Garcia-Kilroy, 2014, draft)

Appendix 2.2: IFC's Bond Purchases and Bond Guarantees

1. **During the period covered by this evaluation, FY04-14, IFC commitments to purchase bonds issued by clients represented $2.0 billion, in 38 projects.** Of this, $1.1 billion were bonds issued by banks, representing 18 of the 38 bonds. Another 10 ($235 million) were spread across non-bank financial institutions, including microfinance. Finally, there were also 10 bonds purchased from non-financial sector clients, totaling $665 million.

2. **IFC also issued 13 guarantees to support securities issuance by clients, with a total value of $254 million. Of these, 11 guarantees (with a face value of $217 million) were issued to enhance the credit quality of bonds,** making them more attractive to investors constrained to investment-grade securities or those who simply didn't have an appetite for more risky securities. Non-financial sector clients represented 7 of the 11 bond guarantees. Two were for infrastructure finance and are discussed further in Chapter 6 of this report. The remainder were spread across banks, microfinance institutions and other non-bank financial institutions. Local currency instruments and local market issues accounted for all IFC's bond guarantees.

18. **IFC's purchase of client bonds was not uniformly spaced over time. From 2004 through 2012, there were an average of 2.1 bond purchases per year (19 in all), averaging $150 million annually.** Many were clustered in 2007, with 7 purchases totaling $591 million in volume, with much of that activity concentrated in bond issues by Indian banks, which is discussed below. Client bond purchases by IFC became common again during 2013-14, with 19 of 38 bond issues during the entire sample period taking place in those two years for a total commitment of $694 million. Six were issued by banks; 5 were from other financial institutions, 3 were in infrastructure (water, rail, and ports), and 5 were in other real sectors. In contrast, guarantees of bonds were concentrated in the early part of the period. 8 of the 11 guarantees were approved in FY07 or earlier.

19. **IFC support for the use of covered bonds in Turkey was noteworthy.** Following legislation enacted in 2009 which allowed for the issuance of bonds that were directly tied to underlying issuer assets, IFC worked with clients to issue two covered bonds; one was the first ever in Turkey and the other was the first to be linked to a portfolio of SME loans.

20. **India had a total of 10 bond issues placed with IFC, amounting to $491 million, until FY14**. Three of those investments were Tier 2 capital bond issues by banks in 2007 in response to decisions made by the local regulator regarding bank capitalization requirements and options. Those 3 issues raised a total of $295 million in new capital for the banks, all denominated in US dollars. Subsequent issues involved both microfinance institutions and real sector clients issuing bonds split between US dollar and local currency. In addition, in June 2015, IFC has approved the purchase of an additional two bonds from Indian banks to use the proceeds of its offshore Masala bond issues - $50 million of Green Bonds from YES Bank, and $100 million of infrastructure bonds from Axis Bank.

Appendix 2.3: Bond Market Development and WBG Interventions: IEG Case Study Countries

VIETNAM

Relevance of Program Objectives and Design

1. **The WBG has had a continuous series of interventions to support bond market development since FY08**, beginning logically with its Bond Market Development Roadmap in FY08 (WB, $58,000), followed by a 'flagship' bond markets project – Vietnam Capital Markets (FY09-14; $1.3 m) that focused on both the government and corporate bond markets. While funded largely by an IDA grant as well as by IBRD, implementation was largely under an IFC advisory service team. The third, follow on project, still underway today, is the Vietnam Bond Markets Development project. Funded entirely by FIRST ($488,000) and approved in December 2014; the project is still under implementation. The focus is now again more narrowly on the government bond market's current challenges.

2. **Although there was little evident WBG country program guidance or support, country client levels of commitment were high throughout**. The 2004 CPS does not mention the goal of bond market development intervention; nor does the follow on Progress Report of 2007. The earlier projects commenced during a time of market uncertainty and volatility, due to the global financial crisis. And since Vietnam's first FSAP was concluded only in 2014, it was only able to inform the last project in this series. Interestingly, the project did not emerge from a focus on government securities and public debt management, but rather, as a pragmatic response to pressures in the equity markets, to absorb the high level of savings and help avoid a valuation bubble.

3. **Accordingly the program of work undertaken was also pragmatic, beginning with the creation of core institutions and setting of standardized market practices, and was thus highly relevant to country circumstances.** Following the Roadmap, work began with support for the creation of an institutional platform for steering the agenda – the Vietnam Bond Market Association (VBMA), now recognized as a serious professional body by market players and regulators. With the VBMA the project first created a Code of Conduct (2010) on market practice, a Market Conventions handbook, that standardized operational aspects of bonds trading (some of which is now reflected in a government regulation e.g. on issuance of government bonds, methods of calculation of interest rates, etc.). This was followed by the so-called Back Office Manual (BOM) which actually covers back, middle and some front office functions. Introduced in 2011, it was piloted at some of Vietnam's largest and most influential bond market institutions. The VBMA also serves as a mutually valued conduit for dialogue between the government and the private sector on regulatory and market development issues. Beginning in 2012, the project also helped the VBMA establish a treasury securities yield curve by creating a mandatory bidding process among the designated market makers. Quotes are published to VBMA members and reported through Bloomberg and Thompson.

4. **The successor Vietnam Bond Markets Development project drew upon the 2014 FSAP built programmatically upon the two preceding projects, and reflected strong government dialogue**. It thus exhibited a high level of *relevance* in its design. It includes both Government and Corporate securities in its focus. The former includes a toolkit and training for the bond issuance process; guidelines on developing a primary dealer system for government bonds; guidelines for the development of new products and techniques (e.g., zero-coupon bonds, index-linked bonds and when-issued securities) and support for new trading, clearance and settlement mechanism for government bonds. In the Corporate bond sphere, the project reviews issuance and approval processes with a particular focus on initial transparency and subsequent reporting requirements.

Effectiveness: Program Outcomes

5. **IEG finds an increase in the volume of mid to long terms corporate bond issuance that could be associated with, if not attributed to, WBG interventions**.[3] Mid- to long-term corporate bonds show a relatively steady and sustained increase. Bonds with 5-9 year maturities rose from almost zero and peaked at $2.7 billion at April 2011 stabilizing at $1.4 billion at December 2013. Bonds with maturities of 10-14 years rose throughout, to a maximum of $1.6 billion as of December 2013. Yet, the overall corporate bond market segment remains small.

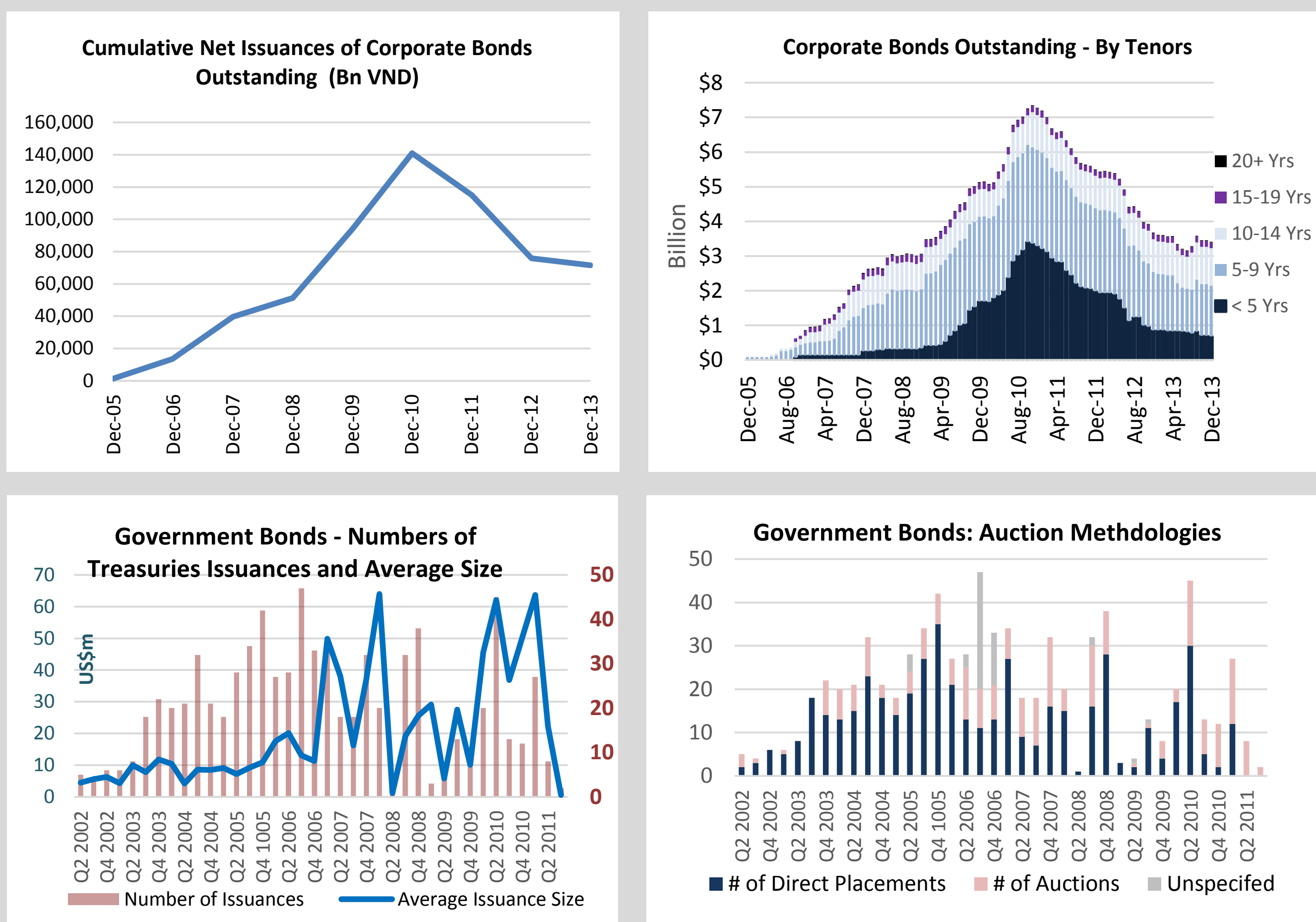
6. **Although Vietnam's government securities became more effective over the period reviewed, the areas of needed improvement - while needing attention - were not defined in the scope of the WBG intervention**.[4] As regards issuance, Vietnam's government borrowing patterns were characterized at the beginning of this period, by one observer, as "ATM finance". When the Ministry needed financing for a certain amount and known maturity, it placed the securities at bank(s) through "underwriting", as opposed to offering the securities through auction. Consequently, there were a very large number of offerings per calendar quarter, which grew through Q2 2007, but the average offering size was small and remained at around $10 million. There was also a large number of tenors of debt on issue, and unlike other emerging markets, Vietnam did not face a challenge in developing the longer end of its yield curve. Over

[3] There had been a strong increase in the issuance of corporate bonds from 2005, however peaking in November 2010 (at $7 billion), with an apparent subsequent decline through December 2013 (to $3.4 billion). However, both the FSAP analysis and IEG interviews suggest that many of these issuances were loans in the form of bonds, aimed at circumventing supervisory bank lending caps. Further, the narrative is that the SBV recognized and closed this loophole. This issue is identified and discussed and discussed in the 2014 FSAP. IEG illustrates the impact of separating out the part of the issuance driven by 'bonds as loan substitutes' assuming these are concentrated in the shorter maturity instrument that correspond to working capital loans, i.e., less than 5 years. Mid- to long-term corporate bonds show a more steady and sustained increase.

[4] There is credible anecdotal evidence that the Bank's Resident Mission staff in Hanoi were heavily involved in discussions with the VN-MoF, with the assistance of the Ministry of Finance of Japan, with regard to developing the government securities market and a part of this dialogue may be the underpinning of the initial Roadmap. But this assistance is not well-reflected in the documentation and is not part of the assessed intervention.

the period reviewed, starting from 2007, Vietnam began the process of consolidating its fragmented issuance pattern, evening out the range of maturities and beginning to increase use of auction methods rather than direct placement at banks. However it is difficult for the WBG to claim direct attribution as the focus of its first two projects was not directly on these aspects of the government debt market. It was not in the project's remit to engage the Ministry of Finance or the Central Bank on auction methodologies, public debt management or distribution of tenors. Moreover there are areas of the overall capital market not covered by the WBG program that could become a bottleneck, notably the institutional investor segment.

Appendix 2.3 Figure 1 Vietnam – Domestic Corporate and Government Bond Markets (2005-2013)



Sources: Vietnam Bond Market Association; IEG.

KENYA

Relevance of Program Objectives and Design

7. **Macroeconomic conditions in Kenya were reasonably amenable to bond market development interventions and two country specific and one regional FSAP provided underlying diagnostic guidance to WBG's menu of interventions**. Kenya enjoyed modest

growth, only moderate inflation, stable government borrowings, though somewhat volatile interest rates. Both government and non-government bond market development received considerable focused attention from the WBG, although often embedded in broader programs of financial sector and capital market development, especially in a series of multi-component loans (FY05-FY15).[5] These were complemented by a series of GEMLOC (FY11-13) and ESMID (FY06-FY14) programs, as well as support from FABDM on debt management. IEG estimates suggest around half of WBG outlays on capital markets development in Kenya focused directly on debt markets, with additional large elements embedded in the areas of regulatory infrastructure development and the use of bonds for the real sector.

8. **Country demand for the WBG bond market intervention programs has been evident since inception and has grown since then**. The government's first Medium Term Plan (MTP) of 2008-12 had the development of efficient and transparent capital markets as one of its objectives, and the second MTP of 2013-2017 explicitly specified developing the government debt market, and the "consolidation of Government bonds." However, there has been uncertain support from the Debt Management Office in the National Treasury.

9. **As in Vietnam, recognition of this work in CASs/CPSs increased in the later part of the review period, explicitly in both the 2010-2013 and 2014-2018 CPSs, and two country-specific FSAPs provided guidance on design**.[6] The FSAP 2004 pointed to the need for a debt management framework, better coordination between the Ministry of Finance debt management unit and the Central Bank, the need for a secondary market in government securities, as well as a strengthened central securities depository. Building on this, the FSAP of 2010 called for improvements in the issuance, listing and trading frameworks, with clearer benchmark issues, and on the investor side, for non-government bonds, increased knowledge and capacity on to facilitate investments in this asset class.

10. **The Bank's latter lending projects reflected and went beyond the FSAP recommendations, as did the GEMLOC and ESMID programs**. GEMLOC also included a more detailed Roadmap, a series of actions for the enhancement of the secondary market for

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[5] Beginning with the Financial and Legal Sector technical assistance project in 2005 (FSLTAP); Infrastructure Finance / PPP project of 2013 (IFPPP); the Second Generation Financial Deepening and Development project (2015) and the Financial Sector Strengthening Project (FSSP, 2015). There were three GEMLOC projects and two core plus around 5 ESMID (including ESMID East Africa) projects that also provided support to Kenya. FABDM support is documented in (http://treasury.worldbank.org/bdm/htm/CaseStudies.html): And bond market support elements are also embedded in other projects, e.g., a sub-national technical assistance project (P145004) for the Kenya Roads Board (KRB) and the Kenya Wildlife Service (KWS) to raise local currency debt finance through the issuance of bonds, and in regional capital market development programs.

[6] The CPS 2010-2013 referred to the goal of deepening capital markets by raising institutional capital and expanding bond and equity markets. The CPS 2014-2018 stated that World Bank advisory services will focus on strengthening capital markets through support to the Central Bank and Capital Markets Authority as well as in developing corporate bond markets and county-level pension schemes, mortgage markets, and financial sector regionalization in the East African Community.

government debt, and an innovative Treasury Mobile Direct program for retail government debt. ESMID inter alia provided practical support to non-government bond market development by seeking to enhance transparency, trading and liquidity in the secondary market, developing trading reporting systems and rules for the market.

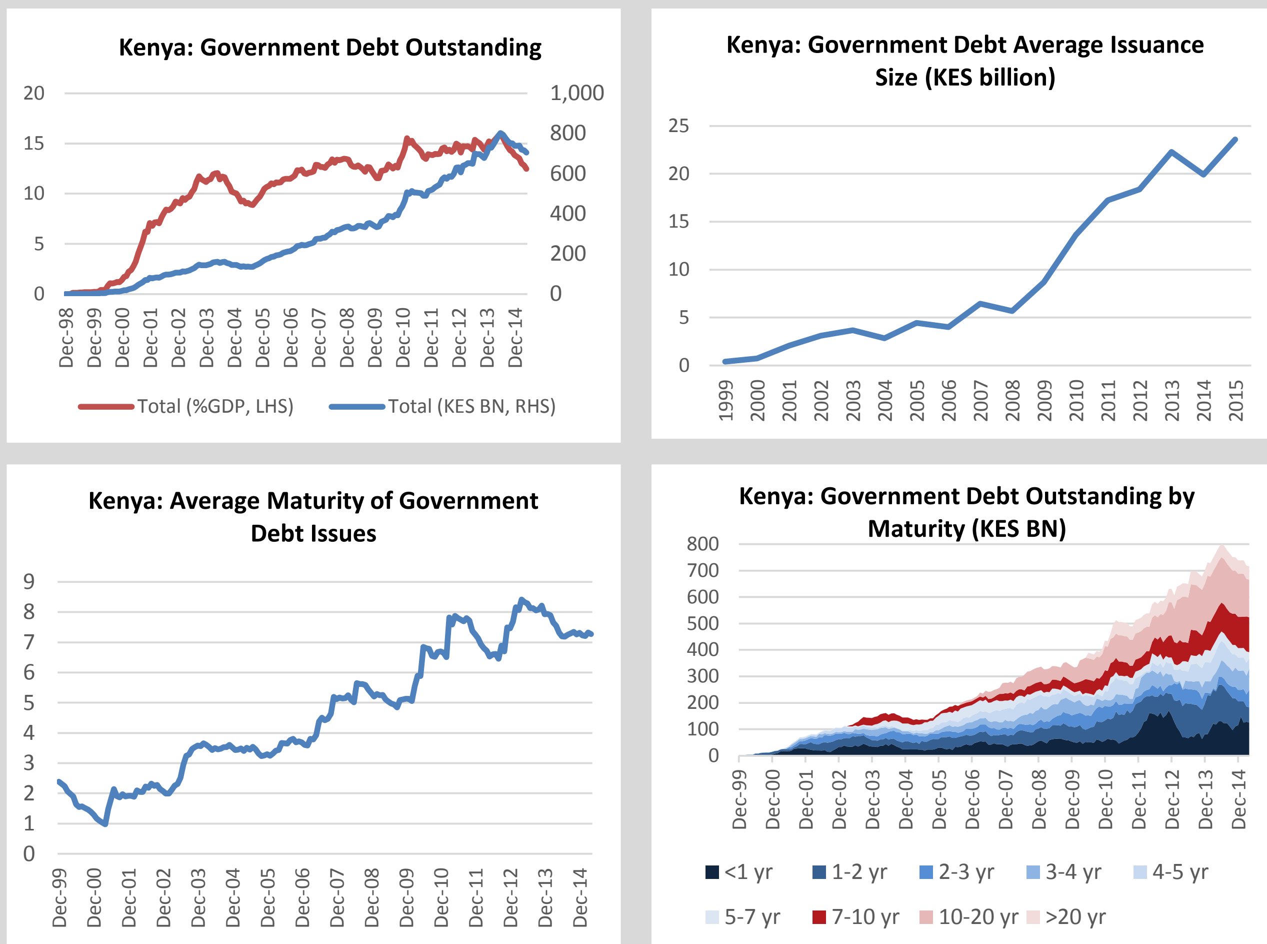
Effectiveness: Program Outcomes

11. **Many advances in the government bond market may reasonably be viewed as being the impact, in part, of WBG interventions in the market, though challenges remain.** The government bond market supported an increase in the amount of debt outstanding as a percentage of GDP, from negligible levels at the start of the millennium and less than 4 percent in 2004 to a peak of 16 percent in 2013, with a parallel improvement in debt structure and efficiency of issuance. Average auction size steadily increased, (lowering issue costs) average maturity has progressively lengthened and there has been growing diversity of maturities of government bonds issued (lowering rollover risk). Moreover from the proportion of foreign currency debt of almost two thirds, the present ratio is reportedly just over 50 percent (reducing foreign exchange rate risk). The number of active bond traders has grown from two to 10, and the types of market participants have expanded to include agents who intermediate between brokers and small financial institutions, and fund managers (increasing liquidity and increasing investors). And improved trading, clearance and settlement mean that 80 percent of bond transactions are now settled in a day, compared to up to two weeks a decade before that. Notwithstanding these advances, liquidity remains low and a reliable yield curve for the government bond market is yet to be developed. Bond issuance is still erratic, sometimes with rumored price collusion and critical uncertainty remains about the relative roles of the central Bank and the Public Debt Management Office in the National Treasury.

12. **Cumulative corporate bond issuance grew tenfold, from $100m in 2007, prior to the WBG ESMID program, to almost $1,120m in 2013, and the WBG clearly served as a catalyst**. Although much of the increase in 2009, was driven by two large issues, there was also an increase in the total number of issues. Around seven were supported by ESMID, and one issue, of around $100m, is directly ascribed to the ESMID program. But more significant, ESMID supported regulatory reforms (e.g., significantly, support for a new Securities Industry Act, where ESMID helped frame the section on non-government bonds, introducing a more flexible issuance regime targeting institutional investors and moving towards principles-based regulation) that paved the way for an overall increase in corporate bond issuance, and reductions in time taken for approvals from 270 days to 45 days.[7]

[7] Carana Corporation report (2009).

Appendix 2.3 Figure 2 Kenya – Domestic Government Bond Market (1999-2014)



Sources: IEG, Bloomberg.

13. **Nevertheless, major challenges inevitably still lie ahead, demonstrating the need for sustained long term engagement, despite very successful support from the WBG.** It is difficult for corporates to compete with a very liquid banking sector that can sometimes provide rates below sovereign to domestic blue chips. Rates on government debt are so high that it can sometimes crowd out non-government issuers. There is limited appreciation, among investors, of the risk-reward tradeoff, and there is poor corporate governance at some potential issuers, including parastatals. Finally, there is a lack of clarity about the tax treatment of a range of securities.

INDIA

Relevance of Program Objectives and Design

14. **The WB worked with the Indian government largely in an advisory capacity, in response to ad hoc requests made by the Ministry of Finance.** It undertook some significant

work between 2004 and 2006, albeit in narrowly defined areas of bond market development. After around 2009, the pace of engagement slowed down. The WB's 2006 review of the Indian corporate bond market reflected a comprehensive understanding of relevant issues for corporate bond market reform, though its recommendations focused primarily, based on government request, on issues pertaining to regulation and market microstructure.[8] The report tangentially alluded to underlying structural constraints in the financial system that impacted upon corporate bond market development, notably, the limited depth of the government bond market and the absence of a well-defined yield curve. Within its scope and sphere, the study has been recognized by market participants as a quality contribution that influenced internal government decision committees on corporate bond market development.[9]

15. **However the WB did not work to both IBRDengage the government on the full spectrum of issues affecting the corporate bond market, and did not take up more fundamental issues underlying the government bond market, although these had been pointed out in India's first and second FSAPs (2001 and 2013).** The WBG may have been limited in its 'space' for dialogue on these issues, given that the government tended to rely on its own internal committees in critical areas. These issues refer to the 'placement' of a large part of government debt within a banking system that was required to hold a significant part of its government bonds to meet mandatory liquidity requirements, without 'marking-to-market' with consequent 'crowding out' impact on corporate bonds.[10] In light of these ground realities, it appears that the WB work on developing the Corporate Debt market in India may have been premature, without a significant commitment from the government to contain its fiscal deficits, moderate inflation, and move to a more market based mechanism for the issuance of government debt.

16. **The FSAPs also pointed out the conflicts between the role of the central bank as the manager of government debt, and implied conflicts of interest with monetary policy.** The World Bank attempted to provide technical advice to the Government of India for debt management, and organized a conference on this theme in 2008, in which the Treasury participated.[11] The conference discussed how India could transition from central bank oversight to an independent public debt management agency. The issue remains unresolved, although it has come to fore once again in 2015.

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[8] Thus it highlighted, e.g., issues such as the high costs and time for issuance, poor transparency and disclosure, limited credit information, lack of clarity on regulatory oversight for corporate bonds, poor enforcement of creditor rights, and the limited development of hedging instruments.

[9] Finance Ministry of Government of India (2005). Report of High Level Expert Committee on Corporate Bonds and Securitization (Patil Committee). New Delhi. http://finmin.nic.in/reports/Report-Expert.pdf

[10] Statutory Liquidity Requirements and Cash Reserve Requirements. See e.g., Ila Patnaik, Indian Express, 20 February 2009.

[11] The Ministry of Finance formed an Internal Working Group (the Jahangir Aziz Committee) to determine how best to move forward on establishing an independent Debt Management Office (2008). http://finmin.nic.in/reports/Report_Internal_Working_Group_on_Debt_Management.pdf

17. **Likely reflecting limited government demand, the findings of India's FSAPs were poorly reflected in its Country Assistance Strategies**. There was sporadic, but limited, mention of work in the bond market area specifically. The 2001 to 2004 CAS noted that India's capital markets are deep for a low income country, but observed that the country's long-term debt market was underdeveloped. It mentioned that WBG would work with the government on selected areas of capital markets supervision and regulation, with no direct allusion to the corporate bond market report. The 2005 to 2008 CAS made little mention of capital markets development, although it noted that the Indian authorities have increasingly drawn on "just-in-time" support from World Bank staff to provide informal, but technically demanding in puts into important national High Level committees.[12] The most recent Country Partnership Strategy for India for FY2013 to 2017 noted broadly that WBG would explore the possibility of strengthening India's capital markets, developing a long-term corporate bond market and enabling securitization of assets.

Effectiveness: Program Outcomes

18. **Following WB interventions, there appears to have been some increase in the proportion of small corporations in the Indian corporate bond market.** Appendix 2.3 Figure 3 suggests some decrease in the share of the largest corporations, in terms of the numbers of issuances. However, banks and financial institutions continue to dominate issuance and real sector issuers are few. The maturity structure of corporate bonds on issue has not changed noticeably, and the overall impact on patterns of corporate finance in India, even for the larger firms, appears to be negligible.[13] Overall, it appears that the relevance of WBG bond market development advisory interventions in India was necessarily limited by their scope. Although individual interventions were of good quality, the WBG did not have adequate engagement with dialogue in this area to go into fundamental underlying aspects.

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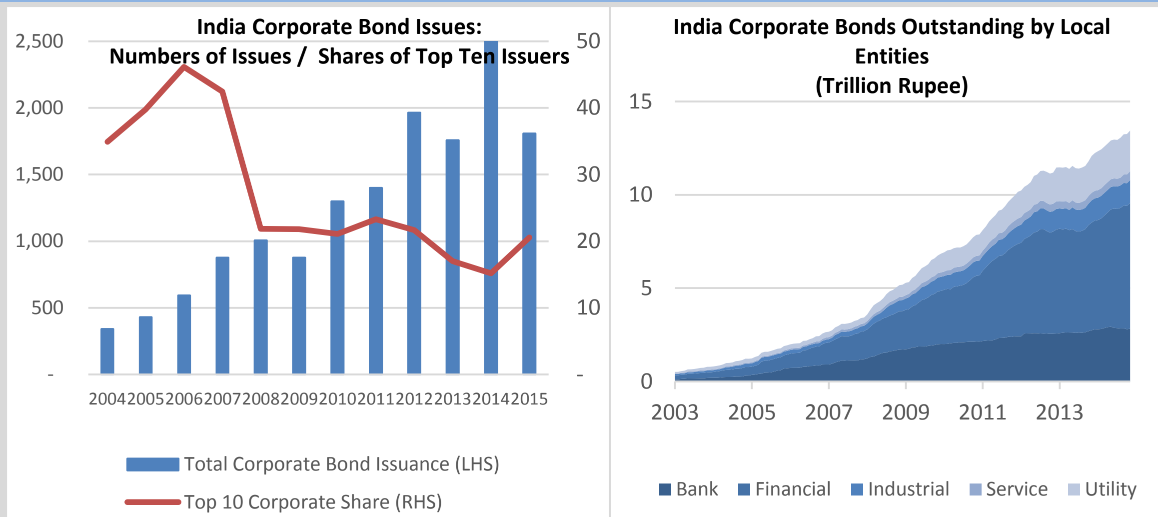
[12] This CAS indicated that the Bank and IFC may issue Indian rupee bonds, which would contribute to the development of the long-term bond market. These are discussed in Part III of the present chapter.

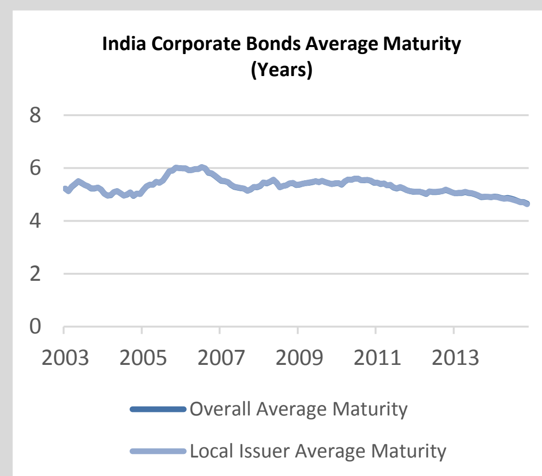
[13] Data on sources of funds are from the Center for the Monitoring of the Indian Economy, which focuses on large and medium enterprises.

Appendix 2.3 Figure 3 India – The Domestic Corporate Bond Market



Sources of Funds for Indian Companies (2000-2011)

Component	Ended 2000-01	Ended 2010-11
Internal	35.2	30.8
Retained Earnings	5.7	21.1
Depreciation	29.5	9.7
External	64.6	67.5
New equity	17.2	13.8
Banks	14.4	17.8
Bonds	3.5	3.9
Foreign	0.5	3.2
Current liabilities	25.5	24.2



Sources: Banerji et. al, 2011, Bloomberg, IEG.

COLOMBIA AND MOROCCO

Morocco

19. **IEG's field visits also included Morocco and Colombia, and in the former, there were unusually limited reference to bond market related issues in early FSAPs.** The Morocco FSAPs of 2003 and 2008 noted the vast crowding out of corporate debt by government bond issues, and recommended improvements in the government debt issuance process. The 2008 FSAP described some improvements, though the market still fell short of creating benchmarks

for a yield curve. A third FSAP, in 2015, has still to be finalized though drafts suggest it may have a bond market recommendation, for electronic trading of government bonds.

20. **Despite the limited reference to bond market development in the FSAPs, a bond market development program took shape, based on a 2011 FIRST program, and a closely related 2012 GEMLOC intervention.** These followed the early FSAP observations and provided advice – and impetus – to the government on how to improve debt management and develop a reliable benchmark through better issuance timing. The 2011 FIRST project also included the design of a money market reference rate. Morocco's ongoing series of DPLs then put in place targets for issuance activity in line with the recommendations from the FIRST advisory work, in the 2012 DPL. These included both improved issuance plans as well as the design of a secondary market architecture. A subsequent DPL (2014) includes further details on secondary markets through conditions on primary dealers.[14] There was little coverage of corporate bonds although the 2010 FIRST operation provided for support for legislation on covered bonds (introduced as a policy action in the 2010 DPL) as well as Sukuk bonds and interest rate derivatives.

21. **Although evidence is limited, it appears that the advisory work on developing the government yield curve has had the intended impact on the market.** The completion report of the 2012 DPL describes an increase in the share of medium and long-term government debt issues to 36 percent, up from just 5 percent in 2008. Tenors of Treasury bills are reported to have decreased from 170 (2008) to 115 days (indicating reduced fragmentation). IEG interviews with both the government debt management office and with primary dealers confirm that the FIRST program has fundamentally changed the issuance process and resulted in a well-regarded and well-established issuance process that is better for both the issuer and for investors. Meanwhile, implementation of the electronic quotation system is in process, and its use is expected to increase with more specific requirements for primary dealers (as required in the 2014 DPL). Overall, Morocco represents an example of a relevant and so far effective program, developed largely through a range of Bank advisory instruments (GEMLOC, FIRST) that have contributed towards detailed DPL design. It also demonstrates the time that such programs can take and the need for sustained engagement over a long period of time.

Colombia

22. **The WBG extended sustained support to Colombia on a broad front for building financial markets, with a special emphasis, in recent years, on bond market development for infrastructure finance and now with its comprehensive "Deep Dive" initiative.** Underpinned by two FSAPs in 2005 and 2012, and explicitly supported by Colombia's Country Partnership Strategies of 2002, 2008 and 2011, the program of financial market development was continuously reflected in broadbased policy lending (2005, 2006, 2007, 2010, 2013 and 2015).

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[14] The 2014 DPL Results matrix required primary dealers to quote continuous and tradable prices for government bonds; with the expected result to be observed in Bloomberg.

And both IBRD and IFC have issued bonds in Colombian peso, locally and offshore, for their own funding requirements. WBG's approach towards Colombia's bond market development was thus more than usually integrated in a broader financial sector and capital market context, relative to other countries. Although the 2005 and 2012 FSAPs did not raise major issues with the government bond market, noting its sound primary and secondary structure, they noted the need to improve liquidity. Issues were also noted in the related areas of money market development and the links between debt management and debt markets. Colombia's 2005 2nd Programmatic FSAL noted that the "regular issuance program of domestic government securities and their increased trading leads to a reliable estimate of the yield curve" and its policy loans of 2006 and 2007 referred primarily to the need to strengthen money markets and secondary government debt markets. These were followed by further support to strengthen money markets through FIRST (2007). Public debt management was supported through a SECO-funded Debt Management department intervention (2013), and reflected in the 2nd Programmatic Fiscal loan of 2013, that called for higher efficiency of debt and cash management. The inclusion of such areas in the scope of policy loans, especially in the relatively sophisticated environment of Colombia, likely reflects the government's own reform agenda, as much as Bank guidance.

23. **The WBG's core focus of support for corporate bond market development was reflected in a series of interventions under the SECO-financed ESMID program (2011-2014) extended in the context of large scale infrastructure finance, especially for the '4G' concessions.** Colombia's ambitious program for a network of 'fourth generation' toll highways has been a key theme of the government, which has sought support through targeted infrastructure project bonds. Both FSAPs noted the generally lagging corporate bond market, with its high issuance costs (partly due to a financial transactions tax), limited investor appetite for all but the most highly rated paper, and constraints on institutional investors' portfolios.

24. **In terms of results of WBG interventions for government bond market development, there has been some progress, mainly on the regulatory front.** In the areas related to government bond market development, FABDM's work with the Debt Management Department led to a consolidation towards benchmark issuance and the publishing of an auction calendar. The WB also helped facilitate development of the money market by helping create a reference rate (the IBR) and encouraging better cooperation between the Central Bank and the Debt Management Department, including communication and unification of short term debt instruments.[15]

25. **Results, especially on the regulatory front, are also noted in the area of the ESMID program, for corporate bonds.** They include (as noted in the 2015 Sustained Growth DPL) expanded issuer and investor access to capital markets through better mutual fund guidelines

[15] Yet challenges remain in terms of the ability of money markets to provide adequate liquidity for capital markets (FSAP 2012, IMF Article IV consultation, June 2015).

and stronger custodial arrangements. A significant outcome for the overall corporate bond market, supported by the WB, was a simplified alternative issuance platform for corporate bonds as well as equities.[16] However while the regulations are now in place, there has been limited issuance under this new hybrid regime so far.[17] Meanwhile, the government's previously approved phase-out of the financial transactions tax by 2018 has now been set back to 2022. The WBG also tried to support revised pension sector policies (with FIRST support, 2014) including the establishment of "Multifondos", various pension investment schemes of different risk levels; easing pension fund investment in corporate bonds and lower rated paper. Investment limits were raised to 10 percent through infrastructure focused private equity funds and a further 10 percent in specific project bonds for the 4G Concession Program. However incentives for the pension funds remain poor. As an asset class, the appetite for corporate bonds in Colombia, especially those below investment grade, is limited.

26. **On the transactions side, results are not conclusive, as it is still too early to know the outcomes.** The ESMID program's indicators for regulatory reform were largely met, but the ones related to transactions were not, due to delays in timing. ESMID had some success with helping "Credifamilia" issue a bond through the new hybrid platform, but there have been more difficulties with the infrastructure sector. WBG supported the rating of an infrastructure bond by Fitch, which was awarded a rating of AA+ for a senior tranche, after including a partial credit guarantee from the National Development Fund (FDN), for up to 15 percent of the value of the bond, thus meeting the AA threshold for most local investors. No project bonds have been issued yet, but it seems likely to happen once the second round of 4G concessions come to market.[18]

27. **Overall, WBG's objectives related to Colombia's bond market have been partially met.** It could be argued that the agenda was intrinsically more difficult. Government bond markets were already quite developed. WBG Treasury bonds in Colombian peso were issued largely for their own funding needs, and cannot be said to have shaped or significantly influenced local markets. Issues facing corporate bonds are complex and involve broadbased actions on a number of fronts including investors and the tax regime, against the backdrop of an economy dominated by financial conglomerates. Important incremental steps have been achieved under ESMID towards capital market financing of infrastructure investment, but it is too early to determine outcomes in this area as it is a recent priority and the transactional focus will be sustainable only if market conditions support corporate bond finance. IFC has had a major impact on the government's push for increased capital market financing for infrastructure investment, primarily through its equity investment in FDN. However, FDN is yet to provide

[16] Referred to as the 'Segundo Mercado', the scheme provides for simplified listing for newer companies, and resembles well-known US SEC 'Section 144a' investment provisions only available for qualified institutional buyers.
[17] Although IFC and a client (Bancamia) are supporting the initiative. IFC Treasury is also planning to issue a local currency bond,under its Global Medium Term Notes program, through this mechanism.
[18] Discussed further in Chapter 6, on support to real sector finance.

any infrastructure financing for 4G concessions. The design of the WBG program in Colombia, rather than focusing broadly on improving the corporate market, made a concentrated bet on bond financing for real sector investments, especially through the ESMID program, and through considerable support for the public sector's National Development Fund. It remains to be seen whether such an approach is successful or sustainable.

Appendix 2.4: Monitoring Local Debt Markets: Notes on FinDebt and Bloomberg

1. **During the course of the Capital Markets Evaluation, the evaluation team built a database of bond issues across the case study countries** (Colombia, India, Kenya, Morocco, Nigeria, and Vietnam) including Nigeria, where a mini-mission was conducted; using data from Bloomberg, both for government as a well as corporate issuance. When FinDebt's Global Bond database was first published in 2015, the team tried to use this more readily available data but found significant differences that prompted a more detailed comparison.

2. **Looking at the local currency government bond markets, Bloomberg's data has more issues and a greater volume in each market during the period under review**, 2004 through 2014. Though data on the corporate side is closer, the conclusion is similar.

Appendix 2.4 Figure 1 Local Currency Government Bonds, 2004 through 2014, FinDebt vs Bloomberg

	FinDebt US$m	Bloomberg US$m	FinDebt Nos. of Issues	Bloomberg Nos. of Issues
Colombia	6,060	110,400	18	42
India	186,560	1,350,345	207	913
Kenya	0	14,651	0	118
Morocco	0	60,877	0	123
Nigeria	34,187	55,562	189	63
Vietnam	127	34,288	5	452

Source: IEG

Appendix 2.4 Figure 2 Local Currency Corporate Bonds, 2004 - 2014, FinDebt vs Bloomberg

	FinDebt US$m	Bloomberg US$m	FinDebt Nos. of Issues	Bloomberg Nos. of Issues
Colombia	24,809	30,637	72	983
India	307,529	383,761	291	7371
Morocco	631	8,400	4	184
Nigeria	1,011	5,331	7	197
Vietnam	3,198	8,535	33	153

Source: IEG

3. **Regarding corporate bonds, and unlike government bonds, the total value of bond issues, in some markets, is close across the two data sources, but the number of bonds issued is quite different.** One possible explanation is FinDebt may be counting slightly different tranches (Regulation S vs 144A for example)[19] or reopenings of previous issuance as only one bond whereas Bloomberg may be counting them twice. Also, currency conversions can lead to

[19] Regulation S provides for exemption from registration for certain offerings made outside the United States; the SEC's Rule 144A eases requirements for privately placed securities by permitting only Qualified Institutional Byuers to trade these positions among themselves. RegS and 144A Bonds are generally assigned two separate sets of securities identification codes.

small discrepancies in the US Dollar value since the database constructed from Bloomberg data uses the exchange rate at the end of the month to convert the amount issued in local currency to dollars, which may be different from the method used by FinDebt.

4. **A bigger complication is the filters used and different types of classification, which make it difficult to be sure the same types of bonds are isolated from each database**. The type of issuer was identified in FinDebt by Borrower Type with government bonds classified as Public – Local whereas corporate bonds were classified as either Non-Public and Public – Other. In both cases, Local Currency, both Domestic and Cross-Border issues are included. Government bonds in Bloomberg were identified by Ticker while corporate bonds were identified by currency and then government bonds were netted out.

5. **Since issue level data is not available from FinDebt, a deeper investigation into the cause of these differences is difficult**. There clearly are advantages to using FinDebt vs Bloomberg, specifically that it is readily available to anyone with the World Bank Group whereas Bloomberg terminals are limited. In the end, perhaps the most pertinent advice comes from IOSCO's 2014 report on corporate bond issuance, "Individually, these data sources provide only partial information and so the authors have combined data sources where appropriate to create as complete a dataset as possible."[20]

[20] Rohini Tendulkar and Gigi Hancock, "Corporate Bond Markets: A Global Perspective, Volume 1" OICV-IOSCO, April 2014.

Appendix 2.5: Experience of Other MDBs in Local Currency Financing

Appendix 2.5 Box 1 Local Currency Bond Issues by Multilateral Development Banks

Prior to 1970, Multilateral Development Banks (MDBs) met their funding requirements exclusively through the issuance of bonds and derivatives denominated in currencies of United States, United Kingdom and European countries. IBRD and ADB then began issuing Yen denominated bonds in the emerging Japanese market (Samurai Bonds), later expanding to bonds in the currencies of Hong Kong SAR, China, Taiwan, China, and South Korea. Some of these, especially the Hong Kong currency issues, were off-shore, in major financial centers (New York, London and Tokyo) and were not subject to the regulatory controls associated with issuing in the on-shore markets of the concerned countries. Gradualy the spectrum of "non-core currencies" expanded. IBRD was the largest issuer followed by the EIB. The IDB did not issue any local currency bonds until its global (off-shore) Mexican Peso bond in 2005. EBRD has been active in issuing local currency bonds in Eastern European countries since its inception and it has a clear mandate in its Charter to support local capital market development. The primary aim of all MDB Treasuries is to raise funds on the most cost effective basis, and most do not take on foreign exchange risks.However, as IFC and EBRD have a mandate to assist the private sector and this can involve investing and lending in local currency without government guarantees within internal prudential financial limits.

Support for local bond market development and local currency financial markets grew after the 1995 Mexican crisis, the Russian default in 1996 and the 1997 Asian financial crisis. Currency and maturity mismatches in Asian countries led to massive defaults in their corporate and banking sectors, forcing them to issue large volumes of government bonds for banking and corporate restructuring. The need to develop local capital markets, especially bond markets, to avoid future crisis became apparent and concerted efforts were made by their governments individually and collectively to develop these markets through the Asian Bond Market Initiative (ABMI) which included ASEAN countries, China, Japan and Korea (also known as ASEAN+3), under the aegis of ADB. Several working groups were set up to address regulatory and infrastructure impediments that were holding back development of these markets. One of the recommendations of the ASEAN+3 initiatives was to encourage MDBs to issue their bonds in these markets as a good role model for others issuers.

Sources: IEG, IFC (2004), Garcia and Dalla(2005), Wolf-Hammacher(2007), EBRD (2013), Hoschka (2005)

1. Among other MDBs, the European Bank for Reconstruction and Development (EBRD) and the Asian Development Bank (ADB) are relatively active local currency bond issuers. The Inter-American Development Bank (IDB) and the African Development Bank (AfDB) have thus far concentrated largely on issuing bonds in non-core including emerging market currencies on a fully hedged basis, mainly through currency swaps.[21] EBRD has been active in this area since its inception as most of its client countries were transition economies with rudimentary financial systems and building domestic financial markets is a part of its mandate. EBRD also lends to private sector and has a financial profile similar to IFC. It has a low gearing ratio and callable capital from its shareholders, which could arguably help it to take prudent risks, though this eventuality tends to be discounted by rating agencies and is not taken into account by EBRD itself. IFC has the ability to take some risks, and a well-diversified portfolio, though no callable capital (for what it is worth) unlike EBRD. ADB became involved in local currency

[21] Although, in 2014, the African Development Bank established a program for issuance of US$ 1 billion in Medium Term Notes in Nigeria. The AfDB's first issue raised around US$80 billion with a 7-year bond, issued at a discount of about 75 bps below the comparable reference point on the government yield curve. It was the longest maturity instrument in its asset class to be introduced to the Nigerian market.

operations following the Asian crisis of 1997 with devaluation of the Thai Baht. ADB acts as the secretariat of the ASEAN+3; a joint initiative of ASEAN countries plus China, Japan and Korea. The ASEAN+3 group has been at the forefront in building bond markets in the ASEAN+3 countries by addressing impediments both on demand and supply sides through several committees that address policy, structural and market related issues that impede development of local currency bond markets.

The European Bank for Reconstruction and Development (EBRD)

2. The Articles of Agreement establishing the EBRD includes an article which mandates it to stimulate and encourage the development of capital markets (Agreement Establishing the European Bank for Reconstruction and Development, (Chapter 1, Article 2. Functions). As a result, EBRD has been active in assisting its member countries in developing domestic capital markets through investment operations and advisory works. Its capital market development program through local currency bond issues is closely associated with its local currency lending program, first launched in 1999, following the 1997 Asian financial crisis, which clearly demonstrated the risk of currency and maturity mismatch.

3. Local Currency Lending Program (Phase 1). During 2000-2010, EBRD approved 93 loans denominated in 16 local currencies amounting to €4.8 billion, or about 10 percent of its total loans.[22] Since financial markets in most of its countries were "dollarized", EBRD concentrated its investment operations in countries which were less dollarized and its operations by value were concentrated in Russia (45%), Poland (20%) and the Czech Republic (4%). During this phase, EBRD also issued several bonds in domestic markets with Russia accounting for a major share. Since borrowing in foreign currencies was much cheaper than in local currencies, about ninety percent of EBRD's clients borrowed in foreign currencies. As a result, a large number of EBRD's client countries and clients were badly hit by the 2008 global financial crisis. The financial crisis exposed two serious shortcomings in the region's economies: excessive reliance on foreign capital and excessive use of foreign exchange borrowing.

4. Consequently, in May 2010, EBRD launched Local Currency and Local Capital Markets Initiative (Phase 2). A new Capital Market Development Department dedicated to local currency lending was created in the treasury department. EBRD lending in local currencies has steadily increased and stood at Euro 7.2 billion the end of January 2015. The Phase 2 (LC2) initiative focuses efforts to increase the share of EBRD investments in local currencies and to identify and support sequenced reforms in local currency markets across five major themes:

- Building stable and sustainable macroeconomic frameworks
- Improving the legal and regulatory environment to support capital market activity
- Developing financial market infrastructure including clearing and settlement
- Developing the institutional investor base

[22] EBRD (2013) Local Currency and Capital Markets Development

- Promoting a more efficient transaction environment and expanded product range.

5. Early Transition Countries (ETCs) Local Currency Program. In 2011, EBRD set up a local currency program for early transition countries (http://www.ebrd.com/what-we-do/sectors-and-topics/local-currency-early-transition-countries.html). The US$320 million program was set up by EBRD and its donors to address over-reliance on foreign exchange financing in the ETCs, exacerbated by the lack of conventional sources of local currency funding.[23] To address this problem and to support the development of local capital markets in the ETCs, EBRD provides local currency loans through procuring local currency funding or hedging, by entering into currency swaps with third party providers, such as the Currency Exchange Fund called TCX. However, the differential between funding/hedging in foreign currency (US dollars or euros) and local currencies in these emerging markets is very high. As a result, local currency interest rates are too high for small and medium-sized enterprises. To reduce interest rates on local currency loans, EBRD and donors have entered into a risk-sharing arrangement, which allows for affordable interest rates. The current size of risk sharing fund is US$ 37 million.

6. Under this program, local currency loans are made available to small and medium clients only in those countries that have explicitly committed to improving their policy and regulatory framework and to introducing primary elements of a domestic capital market. Governments of six countries (**Armenia, Georgia, the Kyrgyz Republic, Moldova, Mongolia and Tajikistan**) have made such a commitment by entering into a Memorandum of Understanding with EBRD. EBRD and the countries review on a regular basis the progress with reforms and improvements in local capital markets, and whether funding conditions have improved to the extent that the program is no longer required in the country. The ETC Local Currency Program has already supported US$ 185 million of local currency loans, which have been on-lent to around 81,000 micro, small and medium-sized sub-borrowers.

7. In addition to lending and providing financial solutions, EBRD also offer extensive advisory services some with internal budgetary resources and some with donor support, especially in new member countries and transition countries. The new department has conducted first assessments (of capital markets and financial sector) for about 20 countries, sometimes joint with other IFIs. These assessments cover payments and settlement systems and institutional investors. Findings of these assessments and other associated technical supports are then used as a basis for investment program in these countries.

8. In some countries, EBRD has played a lead role in helping its client countries build basic financial market infrastructures that are required for development of capital market. In **Russia**, EBRD help established **the Ruble Overnight Index Average (RUONIA)**, which is a money

[23] Especially in low-income ETCs small and medium businesses often borrow in foreign currency while selling their goods and services in local currency, due to the low nominal interest rates of foreign borrowing. This practice has led to increase in currency risks for borrowers and to systemic risks for their financial sectors.

market index. RUONIA is an effective overnight interest rate computed by the Central Bank of Russia (CBR) as a weighted of overnight unsecured lending transactions entered into by banks with high credit quality. RUONIA is used by the CBR for internal benchmarking purposes as well as by market participants for pricing of Overnight Index Swaps.

9. In April 2005, EBRD helped National Foreign Exchange Association (NFEA) of Russia launched a new Ruble money-market reference rate- **the Moscow Prime Offered Rate (MosPrime Rate)**.[24] MosPrime is the yield for money-market time deposits offered by first-tier banks in the Russian market to financial institutions of comparable credit standing. MosPrime is calculated daily for O/N, 1W, 2W, 1M, 2M, 3M, and 6M tenors provided by thirteen contributor banks. A minimum of six banks contribute reference rates, and are selected on the basis of reputation, credit standing, scale of activity and experience in the Russian money-market. The development of a credible money-market index enables (i) greater pricing transparency and consistency in the pricing of all MosPrime linked loans; (ii) the interbank money-market to develop greater liquidity, increasing efficiency, and lengthening the maturity of interbank activity; and (iii) the pricing of derivatives including futures and swaps. In January 2008, MosPrime was included into ISDA 2006 Definitions.[25] EBRD has thus far arranged RUB 150 billion of MosPrime-linked loans to financial, corporate and municipal institutions. MosPrime is used by banks for long term mortgage lending, syndicate loans and bonds. To date, EBRD has issued five RUB Floating Rate Notes totaling RUB 40.5 billion, with a coupon linked to 3 month MosPrime on every calendar month of the year.

Asian Development Bank (ADB)

10. In 1997, ADB's member countries and its operations were very much affected by the Asian financial crisis which started with the devaluation of the Thai Baht in July 1997. The contagion of devaluation was felt in all major countries (South Korea, Indonesia, Malaysia and Thailand) and globally. The danger of currency and maturity mismatch was appreciated by the key decision makers in the region. In response, concerted efforts were made by central banks and governments to develop local currency bond markets in the region to address both demand and supply side issues. In this connection, central banks helped launched two Asian bond funds to create demonstrative effects. On the government side, ASEAN+3 initiatives was launched in 2003. Several committees were established to address all facets of bond market development. ADB provides secretariat supports to the ASEAN+3 and also provides information on the Asian bond markets through a dedicated website: asianbondsonline (http://asianbondsonline.adb.org/).

11. ADB and other MDBs have issued bonds in local currencies in most of ASEAN+3 countries to help create domestic benchmarks. Under the Asian Bond Fund II (managed by

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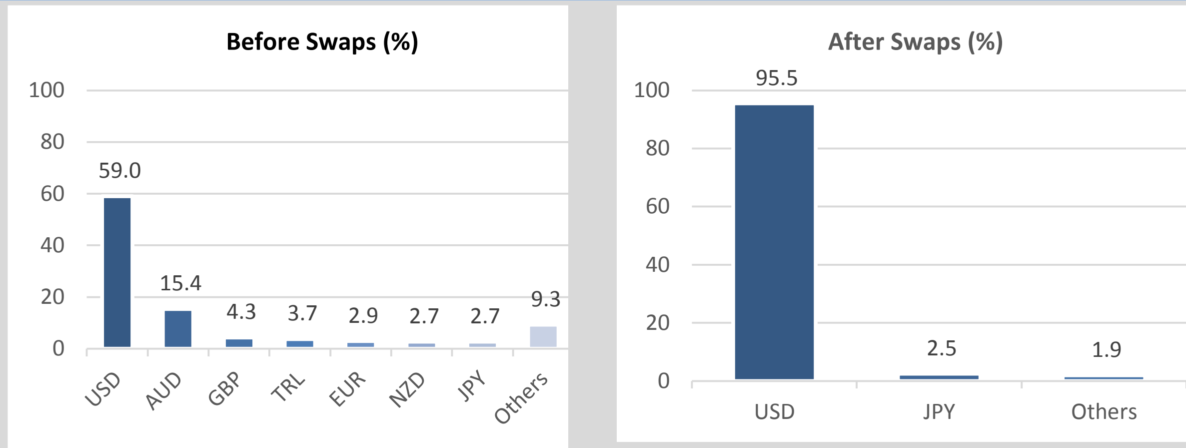
[24] EBRD Treasury, MosPrime Rate, November 2011

[25] International Swaps and Derivaives Association's list of standardized and recognized credit derivatives related standards.

State Street), eight fixed income exchange traded funds (ETFs) have been created to enable local investors to participate in their domestic fixed income markets. Since 2003, ADB has provided substantial support to help its member countries develop domestic capital markets through policy loans and technical assistance projects. As far as the treasury operation is concerned, it has established a US$10 billion equivalent Asian Currency Note Program (ACNP), which is dedicated to note issuances in regional currencies. To date, five regional currencies have been approved for inclusion under the ACNP: the Hong Kong dollar, Malaysian ringgit, Philippine peso, Singapore dollar, and NT dollar. ADB has also established a MYR3.8 billion Medium-Term Note Program in Malaysia. The medium term note program is similar the one used by IBRD and IFC in issuing multi-currency notes. The issuance of these notes by ADB has been modest as capital markets in most East Asian countries have rebounded and grown rapidly since 1997. Interest rate and currency swaps are readily available in South Korea, Malaysia, Indonesia, Thailand and the Philippines. Therefore, the need for local currency issuance by ADB has largely disappeared.

12. ADB's main funding objective is to ensure the availability of funds for its operations at the most stable and lowest possible cost. As shown in the Figure 6, almost all of ADB's outstanding borrowings at the end of 2014 were swapped into US$. ADB's strategy is to issue few large benchmark bonds to maintain its strong presence in key currency bond markets and raise remaining funds through opportunistic financing, private placements and structured notes, which provide ADB with cost-efficient funding levels. This funding strategy is almost identical to IBRD. Out of US$14.2 billion raised in 2014 in 11 currencies (Australian dollar, Brazilian real, Canadian dollar, yuan, Euro, Hong Kong dollar, Indian rupee, New Zealand dollar, pound sterling, Turkish lira, and US dollar), $12.1 billion was raised through 26 public offerings, including two global benchmark bond issues denominated in euro and US dollars totaling $3.6 billion. The remaining $2.1 billion was raised through 24 private placements. Proceeds of the 2014 borrowings were swapped into US dollar floating-rate liabilities, except for two local currency notes which remained in local currency. The average maturity of these borrowings was 4.3 years.

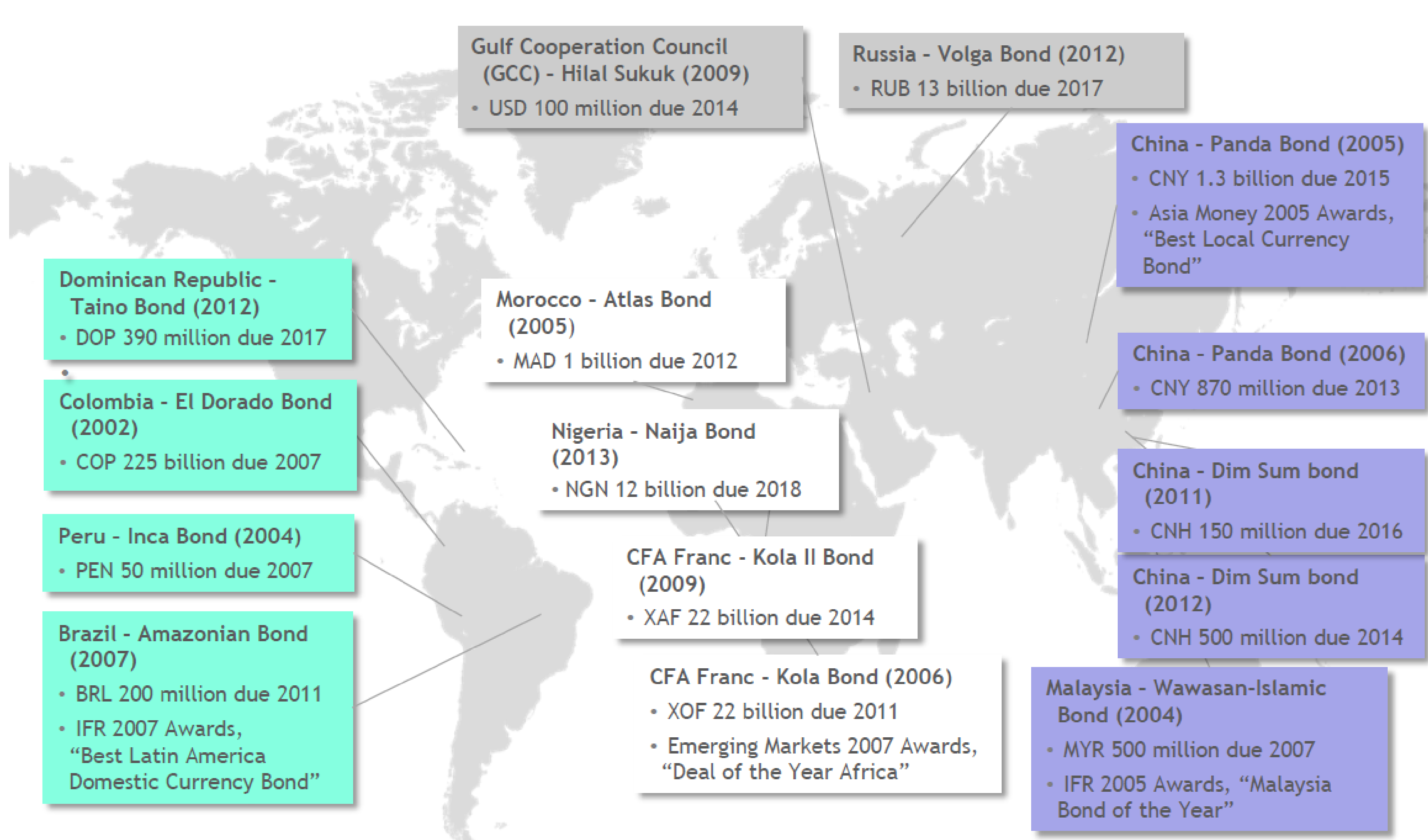
Appendix 2.5 Figure 1 ADB Currency Composition of Outstanding Borrowings – Before and After Swaps (2014)



Source: IBRD, IFC

13. The experience of ADB clearly confirms that the success of building domestic bond market requires a lot more than issuance of bonds by MDBs in domestic market. These include favorable macroeconomic condition and consistent policies, sound financial sector strategy, well developed regulatory frameworks, domestic investor base, efficient financial intermediaries, efficient market infrastructures, relatively open capital account that enable development of risk management products and confidence of international portfolio managers in these countries. When most of these conditions are in place and confidence returned to these markets, the need for local currency bonds by MDBs is no longer required.

Appendix Figure A2.1 IFC's Local Currency Bond Issue Program



Source: IFC

Chapter 2 Appendix Tables A2.1 to A2.4

Appendix Table A2.1. Total WBG Outlays on Bond Market Projects– IEG Core 100 Interventions by Type of Intervention: 2004-2014

Instrument/FY	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total	% Total
IFC AS	-	-	1,223	780	866	1,104	1,104	1,419	1,419	2,076	1,190	11,181	44.1%
WB AAA	290	348	9	1,376	1,319	1,219	479	934	776	463	1,115	8,328	32.9%
WB Lending	-	187	504	504	504	504	504	936	936	813	432	5,824	23.0%
Total	290	535	1,736	2,659	2,689	2,827	2,087	3,289	3,131	3,352	2,736	25,333	100.0%
% Total Spending	1.1%	2.1%	6.9%	10.5%	10.6%	11.2%	8.2%	13.0%	12.4%	13.2%	10.8%	100.0%	

Appendix Table A2.2. Total WBG Outlays on Bond Market Projects– IEG Core 100 Interventions by Region: 2004-2014

Region	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Grand Total	% Total
AFR	-	187	1,324	1,284	1,284	1,694	1,549	1,686	1,721	1,471	1,064	13,263	52.4%
EAP	-	46	-	214	-	41	-	570	432	460	691	2,453	9.7%
ECA	95	-	-	158	-	118	215	191	-	-	-	776	3.1%
LCR	-	-	-	-	-	86	-	531	619	500	397	2,132	8.4%
MNA	195	86	404	58	163	113	86	86	86	80	179	1,538	6.1%
SAR	-	183	9	586	-	82	-	-	45	-	-	904	3.6%
World	-	33	-	360	1,243	693	238	225	228	841	406	4,267	16.8%
Total	290	535	1,736	2,659	2,689	2,827	2,087	3,289	3,131	3,352	2,736	25,333	100.0%
% Total Spending	1.1%	2.1%	6.9%	10.5%	10.6%	11.2%	8.2%	13.0%	12.4%	13.2%	10.8%	100.0%	

Appendix Table A2.3 Total WBG Expenditure on Bond Market Projects– IEG Core 100 Interventions by Income Level: 2004-2014

Income Level	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Grand Total	% of Total Spending
LI	-	187	504	504	504	504	504	590	568	414	38	4,316	17.0%
LMI	-	183	40	192	86	497	539	553	369	337	179	2,975	11.7%
UMI	195	132	404	183	77	153	-	712	671	641	707	3,875	15.3%
HI	95	-	-	158	-	118	-	40	87	-	-	498	2.0%
Regional	-	-	788	1,262	780	862	806	1,170	1,207	1,121	1,406	9,403	37.1%
Global	-	33	-	360	1,243	693	238	225	228	841	406	4,267	16.8%
Total	290	535	1,736	2,659	2,689	2,827	2,087	3,289	3,131	3,352	2,736	25,333	100.0%
% Total Spending	1.1%	2.1%	6.9%	10.5%	10.6%	11.2%	8.2%	13.0%	12.4%	13.2%	10.8%	100.0%	

Source: IEG

Appendix Table A2.4a Bond Market Project Lists: GEMLOC

GEMLOC Projects Examined by IEG

Project ID	Country/Region	Amount ($000)	Year	Name
P106935	World	316	2007	GEMLOC-Investmt Mgr Criteria & Implemtn
P108952	World	786	2008	GEMLOC-TA Forum/Survey Ph I
P108953	World	457	2008	GEMLOC-Investability Scoring Phase I
P108955	China	77	2008	GEMLOC-CHINA Country Policy Dialogue
P112316	World	586	2009	GEMLOC-Investability Ind Scoring Phase II
P115405	Nigeria	172	2009	GEMLOC: Nigeria country policy dialogue
P115512	World	48	2009	GEMLOC ASP -TA Forum/Survey Ph II
P115514	World	59	2009	GEMLOC ASP: Peer Group Dialogue
P124399	World	64	2011	FY11 GEMLOC ASP Peer Group Dialogue
P124402	Morocco	57	2011	GCMGL GEMLOC Morocco
P124403	Nigeria	37	2011	GCMGL GEMLOC TA Nigeria II
P124404	Kenya	86	2011	GCMGL GEMLOC TA Kenya
P124405	Brazil	142	2011	GCMSM: BR GEMLOC TA
P124406	World	118	2011	FY11 GEMLOC Annual Conference
P124407	World	43	2011	GEMLOC Tools
P124409	Uruguay	40	2011	GCMGL GEMLOC Uruguay Country Policy
P127361	Kenya	63	2012	FCMGL Kenya II (Retails bonds, CSD)
P127363	Brazil	100	2012	CMPGL Brazil II (non lending TA)
P127367	World	90	2012	CMPGL ETF
P129987	Costa Rica	35	2012	GCMGL GEMLOC Costa Rica Country Policy
P130237	Uruguay	87	2012	GEMLOC Uruguay Country Policy II
P131060	World	112	2012	FCMGL: FY12 GEMLOC Annual Conference
P131301	World	27	2012	FY12 GEMLOC ASP Peer Group Dialogue
P133151	Kenya	33	2013	GEMLOC Kenya III
P133209	World	163	2013	GEMLOC ETF II
P133212	Brazil	28	2013	GEMLOC South-South: Brazil-Turkey
P133297	World	20	2013	FY13 GEMLOC ASP Peer Group Dialogue
P146864	Brazil	16	2014	GEMLOC South-South Phase 2:Brazil-Turkey
P147198	World	19	2014	FCMGL: FY14 GEMLOC ASP Peer Grp Dial
P148390	Kazakhstan	105	2014	GEMLOC Kazakhstan FY14

Source: IEG

Appendix Table A2.4b Bond Market Project Lists: ESMID & FABDM

ESMID Projects Examined by IEG

Project ID	Country/Region	Amount ($000)	Year	Name
P125844	Latin America	34	2011	GCMSM Support to ESMID in Latin America
P129766	Latin America	81	2012	FCMSM Support to ESMID in Latin America2
P143049	Latin America	7	2013	FY13 ESMID support in MILA
P149833	Latin America	66	2014	FY14 Non-Government Bond Markets in LAC Reg.
P121995	Africa	27	2010	GCMSM Support to ESMID
P124057	Africa	42	2011	GCMSM Support to ESMID in Africa
P129763	Africa	32	2012	FCMSM Support to ESMID in Africa II
P143456	Africa	20	2013	ESMID support in Africa FY13
P149828	Africa	151	2014	FY14 Non-Government Bond Markets in AFR Region
545164	Eastern Africa	5,457	2006	East Africa
562707	Nigeria	1,192	2009	Nigeria
578507	Latin America	1,259	2011	Peru and Colombia: Non-Government Bond Market Development Program
599872	World	657	2013	Non-Government bond markets
600053	Eastern Africa	1,750	2014	East Africa II - Bond Market Development

Source: IEG

Appendix Table A2.4c

FABDM Projects Examined by IEG

Project ID	Country/Region	Amount ($000)	Year	Name
P113893	Jamaica	200,000	2010	1st Programmatic Debt & Fiscal Sustain. DPL
P117982	Egypt, Arab Republic of	536	2010	RTA Market Development and Debt Management
P123241	Jamaica	100,000	2012	2nd Programmatic Debt & Fiscal DPL
P127332	Panama	100,000	2013	2nd Programmatic DPL
P129817	South Africa	522	2012	Government Debt and Risk Management
P129818	Peru	212	2013	Government Debt and Risk Management
P129819	Colombia	543	2013	Government Debt and Risk Management
P148036	Kazakhstan	100	2014	JERP Government securities follow-on TA

Appendixes to Chapter 3

Appendix 3.1: The WBG and Public and Private Equities Markets

ANALYTICAL WORK ON EQUITIES MARKETS AT THE WBG

1. The Capital Markets Department was established at IFC as a jointly funded WBG department in the 1970s with the mandate of providing technical assistance, advisory services and institution building investment. Its initial investments included several stock exchanges, its technical assistance to Korea and then the launching of a Korea country fund helped to put the country on the investment map. IFC's Emerging Market Growth fund was a pioneering success despite early skepticism. IFC helped the emergence of a new asset class, as well as the most comprehensive source of emerging markets stock market data in its Emerging Markets Database, and additionally, the construction of early emerging markets indices. IFC's Antoine van Agatmael has been credited with coining the term 'emerging markets' in the 1980s; later described in his pioneering volume 'the Emerging Market Century' (van Agatmael, 2007). Barger (1998) documents the IFC's early contributions in this area.

2. More limited attention has been paid to the development of stock markets at the WBG, of late, although there was a rich body of WBG research in this area a decade or more ago, including the impact of market restrictions on share issuance and trading. Domowitz, Glen and Madhavan (1997) show that firms segment the market in order to discriminate between different shareholder groups. Also in Mexico, Domowitz, Glen and Madhavan (1998) show that cross-listing shares on international markets brings both costs and benefits that vary by investor class. Primary market issuance activity, the actual raising of capital, is documented in Aylward and Glen (1999), who show a dramatic increase in issuance activity over 1980-1995. Claessens, Klingebiel and Schmukler (2002) examine the migration of listings from emerging markets to international financial centers and document policy factors that increase stock market development. Finally Glen (1995) also looked at issues related to trading infrastructure for securities exchanges, and market microstructures in emerging markets, following early activities of IFC in this area. A new interest is emerging however in the use of stock markets especially for small firms in emerging markets (Harwood and Konidaris, 2014). And overall securities market regulation is a foundation upon which most capital markets development is based, as recognized in Carvajal and Elliott (2007), who discuss issues of enforcement and compliance in emerging economies.

Appendix 3.2: A Variant of Private Equity - Distressed Assets and the DARP Program[26]

1. IFC's approach to developing fund managers is also being applied to a new asset class, distressed assets, which is being developed now in a few markets using a format that is very similar to traditional private equity

2. These distressed assets emanate from the large and growing stock of non-performing loans (NPL) on the balance sheets of banks in IFC client countries, partly reflecting rapid credit growth, and partly in the aftermath of the crisis. IFC's global network of investee banks reported NPLs of more than $2 trillion dollars in 2013. The Debt and Asset Recovery Program (DARP) aims to create a programmatic and strategic response to the ongoing generation of NPLs and distressed assets (DA) in financial systems, and thereby have a systemic impact on maintaining the health of the financial systems. DARP's strategy consists of the creation and consolidation of platforms specialized in the resolution of non-performing assets.

3. DARP's main avenue to support distressed assets pools is through the creation of investment facilities in partnership with other investors and work-out specialists. A typical DARP project consists of the creation of a legal entity to hold the assets. A fund manager with experience in handling distressed assets solicits capital from investors, who fund the entity, often with the use of private equity. With the capital in place, portfolios of distressed assets are purchased from sellers, typically banks. The assets are purchased at fair value, which is usually below face value, allowing the fund manager an opportunity to manage the assets and earn a positive return on capital for the investors. For the seller, the assets have already been written down and the sale involves no loss of capital and often involves a gain as the assets have more value for an experienced manager than they do for the bank. This transaction typically frees bank capital for other uses, as well as reduces bank administrative expenses. It also allows the original loan recipients a chance to regularize their position as borrowers and salvage their credit standings. The collection methods are less severe than traditional collection methods as they have to be in line with WBG policy by working directly to reinstate their access to finance.

3. To date, IFC has committed 31 projects in the program for a total of US$4 billion (US$1 billion for IFC's account plus an additional US$3 billion mobilized from investors). The portfolios of assets involved are mainly retail bank loans (76 percent by number and 78 percent by volume) and mostly located in LAC (60 percent), Asia (20 percent) and Europe (17 percent).

[26] Based on: Debt and Asset Recovery Program Board Paper, Project No. 27890, August, 2009; IFC Debt and Asset Recovery Group (Darp) presentation, presentation November 2014; FC Debt and Asset Recovery Group (Darp) presentation, Presentation Oct 2014, Financial Institutions Group Knowledge forum 2015 presentation.

4. In Colombia since 2007, IFC together with an NPL service company assisted the Government of Colombia in selling the non-performing assets it acquired following the 1999-2000 financial crises. Before IFC became involved there was no formal market for buying NPL portfolios. Since then, IFC has supported a specialized NPL servicer, with the objective of establishing a NPL platform in the Andes Region. As of December 2014, the client has acquired 8 portfolios (6 in Colombia and 2 in Peru), which are composed of 401,000 loans with a total face value of US$267 million. The acquired portfolios are performing well and the expected IRR of this investment is 15-20 percent.

5. In Brazil, with an improved legal framework and significant credit growth, the NPL market is ripe with opportunities. NPLs have increased from US$43 billion in 2007 to US$76 billion in 2013. KPMG estimates sales of loan portfolios in Brazil are 15-30 percent of total NPLs (equivalent to US$11-23 billion) per year. Since 2010, IFC partnered with an existing client with NPL servicing expertise in a platform with a leading local investment bank. As of December 2014, the DARP Brazil platform has invested in NPL portfolios with a face value of US$10.9 billion. Actual collections are in line with expectations at approval and an expected IRR of 27 percent. The market in Brazil is still nascent, but is becoming more active with additional interested investors.

6. While too early to evaluate results, the LAC program has helped banks to off–load US$21 billion in NPLs and about 5 million individuals (and SMEs) have normalized their loan obligations through the program. While a new asset class is emerging with progress in transparency and better practices, establishing a vibrant secondary market with an active trading of NPL portfolios remains a challenge.

Chapter 3 Appendix Tables A3.1 and A3.2

Appendix Table A3.1 Evolution of IFC Investments in Capital Markets Intermediaries and Infrastructure (1970s to 2014)

	Numbers of Projects (Nos)						Value of Projects - Total Funding ($ m)					
Tertiary Sector group	**1970s**	**1980s**	**1990s**	**2000s**	**2010s**	**Total**	**1970s**	**1980s**	**1990s**	**2000s**	***2010s**	**Total**
Broker / Dealer	6	11	20	6		**43**	12.8	25.7	108.8	109.0		**256.2**
Cap. Mkts / Finance Co		1	6	6	6	**19**			22.3	147.1	443.0	**632.3**
Credit Ratings & Information			7	5		**12**			1.9	0.8		**2.7**
Derivatives Mgmt Entities				1		**1**				100.0		**100.0**
Exchanges, Trading Systems Other Infrastructure			6	3	1	**10**			22.7	2.6		**26.3**
Other				4		**4**				43.2		**43.2**
Portfolio Mgmt Cos			8	5		**13**			20.7	20.5		**41.2**
Total	6	12	47	30	7	**102**	12.8	45.7	176.3	423.1	444.0	**1101.9**

Source: IEG analysis. *2010s: Only to the first half of the decade from 2010 to 2014.

Appendix Table A3.2 IFC: Types of PE Investment (1980-2014)

Types of Funds	1980-1989	1990-1999	2000-2009	2010-2014
Fund Management Companies	0	43	12	5
Public Equity Funds	15	34	12	2
Private Equity/Growth	10	71	84	75
Small Business and Venture capital	2	9	22	20
Other Funds	0	8	29	34
Total	**27**	**165**	**159**	**136**

Source: IEG.
Note: Other funds include Distressed Assets, Leveraged Buy Out, Sector funds (microfinance, real estate, forestry), Reinsurance and Secondary funds.

Appendixes to Chapter 4

Appendix 4.1: Housing Finance Projects Reviewed.

1. During the period between 2000 and 2014, IEG identified, in consultation with WBG staff, 129 housing finance interventions by the WBG that were potentially relevant to its evaluation (see Approach Paper). The analysis below covers a smaller set of 112 country level interventions spanning 23 countries throughout all five regions as shown in Appendix A3.3 Appendix 4.1Table 1 below (excluding global and regional interventions and also excluding some interventions of marginal relevance to housing).[27] The Latin America & Caribbean (LAC) region had the greatest number of interventions. IFC had more interventions than the WB, (58 percent); WB had relatively more advisory interventions (68 percent of its interventions).

Appendix 4.1Table 1. IEG Review of WBG Housing Interventions Region and Institution (2004-2015)

Region	IFC	WB	Total (Nos)	Total (%)
Africa	10	8	18	16%
Asia (S and E)	10	11	21	19%
Europe and Central Asia	11	2	13	12%
Middle East And North Africa	7	10	17	15%
Latin America	27	16	43	38%
Total	65	47	**112**	**100%**
	58%	42%	**100%**	

Source: IEG.

Appendix 4.1 Table 2 IEG Review of WBG Housing Interventions: by Region and Instrument (2004-2015)

Region	IFC AS	IFC Investments	WB AAA	WB Lending	Total (Nos)	Total (%)
Africa	3	7	5	3	18	16%
Asia (S and E)	6	4	9	2	21	19%
Europe and Central Asia	9	2	2	0	13	12%
Middle East And North Africa	3	4	7	3	17	15%
Latin America	3	24	9	7	43	38%
Total (% advisory)	37%		68%		**112**	**100%**

Source: IEG

[27] E.g., Reports on the Observance of Standards and Codes (ROSCs) on insolvency and creditor rights, broad based financial sector projects, projects that were miscoded, and a small number of projects on which information was very limited.

Appendixes to Chapter 5

Appendix 5.1: Institutional Investors – Investing in Long Maturity Capital Market Instruments?[28]

1. In terms of volumes of global financial assets, institutional investors have become increasingly important participants in global financial markets. The proportion of household savings channeled through such investors has grown significantly over the last two decades and their assets under management are rapidly catching up with those of the banking system.

2. In the insurance industry, assets under management worldwide accounted for $24.1 trillion in 2012, representing an expansion of 36 percent from $17.7 trillion in 2004. Over the review period of this evaluation, the insurance business grew much faster in emerging markets (at 12 percent per year) than in advanced markets (4 percent per year), with premia estimated at around a fifth of the global total. The assets of insurance companies in advanced countries have been invested primarily in fixed income securities. In 2013, government bonds accounted for the largest share (31 percent) followed by corporate bonds (27 percent). Mortgages (7 percent) were also significant. Equities, which represented the largest asset class for pension funds, took up a relatively small share of the insurers' portfolio (8 percent). Insurers in emerging markets typically hold more cash (15 - 35 percent) in the portfolio, due to the lack of depth in local capital markets.

19. Global pension funds assets, at US$36 trillion in 2014 are ahead of insurance during the decade under review (2004-2014), global pension assets expanded at an average rate of 6.9 percent per annum, faster than world GDP, raising the share of pensions assets to GDP from 68 percent in 2004 to 84 percent in 2014. Among advanced pension markets, asset allocations in 2014 were: 42 percent equities, 31 percent bonds, 25 percent alternative assets and 2 percent cash. Global pension assets are highly concentrated, with the seven largest markets accounting for 94 percent of the total.

20. Research at the WBG cautions that the availability and accumulation of institutional investors' assets alone may not guarantee their investment in longer dated capital markets instruments. As discussed in World Bank (2015), investment decisions of institutional investors are governed by complex factors. While generally expected that such investors would have long investment horizons, which would include investments in longer-maturity capital market instruments, this is not always the case, according to recent evidence from Chile, where institutional investor accumulations have been significant. The average fixed income portfolio

[28] Sources: Swiss Re, Sigma World Insurance Database National Association of Insurance Commissioners; Asian Development Bank (2013); AM Best (2015); Tower Watson (2015); World Bank (2015) Global Development Finance Report; Opazo, Raddatz, and Schmukler (2015); and Randle and Rudolph (2014).

maturity for insurance companies in Chile (9.77 years) is almost double that of pension funds (4.36 years). The shorter maturity of pension funds is not constrained by the supply side of instruments; research suggests it may be due to additional factors. First, pension plan contributors, in apparent efforts to "time the market," frequently switch their holdings within funds in response to market events. Second, there are regulatory needs to match short term performance benchmarks. Due to such factors, pension fund managers have significantly reduced their holdings of longer date bonds and have replaced them with cash. By contrast, insurance companies are not evaluated on a short-term return basis by investors who can redeem their shares on demand, and there is no regulatory requirement on companies to perform close to short term industry averages. Instead, the maturity structure of the insurance companies' fixed income assets seems to be determined by that of their liabilities, which, especially for those that provide annuities to pensioners, are longer term.

21. Perhaps even more important, from the standpoint of design, Chilean pension funds, which are individual plans (similar to US 401k schemes), are individually relatively small, and as such there are limits to their diversification or ability to assume large positions. This also limits their ability to invest in infrastructure projects or longer dated debt securities. By contrast, the Employee's Provident Fund of Malaysia pools funds so that there is a greater ability to invest in long dated securities and riskier projects. Similar pooling in South Korea and Singapore have enabled their pension funds to also play a larger role in investing in longer dated instruments. This underscores the role of the regulator in terms of design and incentives.

22. The implications are that for support to capital markets development, looking at the accumulation and investment phases of institutional investors is only a beginning; ideally, the application of the findings above into practice suggest that there is also a need to take a thoughtful look at regulations and incentives.

Appendix 5.2: Specialized Insurance –Disaster Risk Reduction, Agriculture and Trade Insurance

1. In partnership with the Global Fund for Disaster Risk Reduction (GFDRR), the WBG implements the Disaster Risk Financing and Insurance (DRFI) program to broaden member countries' access to sovereign catastrophic insurance, property catastrophe insurance and agricultural insurance. In addition, the IFC has offered a Micro Insurance Development Program to broaden access to health and catastrophe coverage for the poor.

2. Most of the assistance has been in the area of technical and advisory services. In India, for example, the WBG assisted the Government in the reform of the National Agricultural Insurance Scheme, a program covering more than 25 million farmers, and in the development of the Weather Based Crop Insurance Scheme, which covers 9 million farmers. This experience is being used to develop agricultural insurance schemes in other countries. The insurance team also helped the Caribbean community establish the Caribbean Catastrophe Risk Insurance Facility, a multi-country risk pool that provides US$625 million of coverage to 16 Caribbean governments against hurricanes and earthquakes. Many WB loans were also extended to provide the start-up funding of the facility.

3. In Africa, the WB helped launch the African Trade Insurance Agency, which today provides political risk and export credit insurance to 10 member countries. In addition, some of the financial sector development loans included a small component involving restructuring of the insurance sector, including reforms of the legal framework and state-ownership of insurers.

Appendixes to Chapter 6:

Appendix 6.1 Capital Market Regulation and Development: Projects Reviewed

Country	Projects Title	Year	Project codes	Project Value	Lending (TAL, DPL) or AAA	Funding
ECA – Azerbaijan - 2	Capital Market Development.	2010 – 2011	P121468	$118,743	AAA	FIRST,
	Financial Sector Modernization	2012 – 2016	P12546	$2.15 million	Lending (RETF)	SECO
LAC – Colombia – 5	Money market development	2004- 2008	P105418	$340,000	AAA	FIRST
	Regulation of Agriculture Commodity Exchanges	2012-2014	P143647	$127,493	AAA	
	Support for Capital Markets Development	2014	P149769	$64,309	AAA	WBG
	Strengthening SROs Framework	2013-ongoing	P148637	$124,208	AAA	FIRST
	Sound Financial Sector Development Programmatic Approach	2013-ongoing	P133789	$243,540	Programatic Approach	WBG
LAC Costa Rica - 2	Country Policy Dialogue	2010	P124287	$38,000	AAA	Gemloc
	Development of Capital	2012	P132213	150,000	AAA	FIRST
MNA – Egypt - 2	Capital Market Development	2008	P109073	$258,000	AAA	WBG
	Egypt Country Policy Dialogue	2008	P112367	$59,000	AAA	GEMLOC
MNA Morocco – 3	Morocco Strategy and Instruments to Establish Reliable Interest Rate Benchmarks.	2011	P129990	$422,500	AAA	WBG $14,000; FIRST $258,000 and client $63,600.
	Introduction to Covered Bonds	2010	P123550	$180,870	AAA	FIRST
	Capital Markets Legal & Regulatory	2014-	P149407	$414,354	AAA	FIRST
AFR - 3 Nigeria	Enhancing the Capacity of SEC.	2010	P126659	$162,000.	AAA	FIRST
	CMPGL Nigeria III	2011	P127365	$7,012	AAA	GEMLOC
	Nigeria: Financial Markets (	2012	P133013	$70,000	AAA	WBG
SAR – 2 Pakistan	Capacity Building for the SECP	2005	P096372	$454,000	Lending (IDF)	WBG/IDF
	Capacity Building of Institute of Capital Market	2011	P125968	$380,000	Lending (IDF)	WBG/IDF
SAR - **Sri Lanka - 3**	Securitisation Act	2007	P105435	$27,678	AAA	FIRST
	Amendment to SEC Act	2011	P126528	$242,200	AAA	FIRST
	Development of Non-Bank Financial Sector	2013	P147366	$100,000	AAA	WBG
EAP – Vietnam - 4	Accelerating Capital Market Development	2004	P088804	$650,000	Lending (RETF)	No
	Overview of the Capital Markets and Directions for Development	2005	P097913	$0	AAA	No
	Regulation and Guidance for Management of Investment Funds	2007	P106405	$334,000 FIRST + $58,893 extension. $449,100. Final: $ 507,993	AAA	FIRST
	Vietnam's Capital Markets	2008	P111430	$21,000	AAA	No
MNA – West Bank Gaza - 3	Capital Market Development Project	2009	P117420	$118,000	AAA	WBG
	WBG CMA & PMA TA Supervision	2009	P117448	$38,136	AAA	WBG
	Cap. Mkts Development 2	2012	P131009	$195,560	AAA	WBG

Source IEG

Appendix 6.2: Supporting Good Corporate Governance

1. Capital markets, especially equities markets, depend fundamentally upon good corporate governance for expansions in size and liquidity. This increases market capitalization - the listing of companies – and market liquidity - the trading of their shares. Even in companies with highly dispersed shareholdings, it is a challenge to protect the rights of 'outsider' minority shareholders from 'insiders' such as managers, who have an advantage in directing and controlling the corporation. In countries with less dispersed shareholdings, publicly-held companies may include large controlling block holders, whether family or other institutional groups, who themselves act as insiders.[29] IEG assesses WBG contributions to improving corporate governance in client countries.

2. WBG and IMF involvement with corporate governance issues grew in the 1990s, in partnership with the Organization for Economic Cooperation and Development (the OECD). The jointly prepared Principles, first compiled in 1999, and revised in 2004 and again in late 2015, led to the formulation of a set of of corporate governance standards in both OECD and non-OECD countries that were adopted as one of the twelve Key Standards for Sound Financial Systems by the Financial Stability Forum. Reports on the Observation of these Standards and Codes for corporate governance standards (Corporate Governance ROSCs, or CG ROSCs), have since been a principal instrument of WB support for diagnostics of countries'corporate governance, thus providing potential guidance to other World Bank Group interventions in this area. In some countries, the World Bank also undertook freestanding advisory work on corporate governance, or included a corporate governance component within lending operations. A considerable body of analytic work, and global fora on corporate governance, began to take shape. Starting in 2000 and until end-2014, 52 CG ROSCs were completed.[30] For each country, ROSCs analyzed and rated each of the 32 sub-components of each of the main Principles on a five-point scale: Observed; Largely Observed; Partly Observed; Mostly not Observed; or Not Observed. [31]

3. IFC's approach to corporate governance centers on the role and functioning of the corporate board of directors and related governance bodies reflecting its interest in both safeguarding its investments as well as in developing institutional capacity among its private

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[29] Claessen and Yurtoglu, Corporate Governance and Development – An Update. IFC 2012.
[30] Six additional CG ROSCs have been completed but had not been disclosed within the World Bank Group by September 2015.
[31] The rating scale underwent some change over time. In some cases ROSCs conducted before 2004 were also reviewed, as a reference point, in order to compare findings and make assessments of progress over time. In such cases, ROSCs before 2004 were based on the then prevalent five key areas.

sector corporate clients.[32] Its work is undertaken at different levels: with companies themselves, with educational bodies, corporate governance associations, institutes of corporate directors and the media, as well as with regulatory bodies. IFC's Corporate Governance Unit conducts its own corporate governance assessments focused primarily at the company level, provides a variety of training modules, and prepares, publishes and disseminates materials in the form of tool kits, manuals, and case studies on a broad range of corporate governance topics. In 2010, IFC's corporate governance assistance program covered only two regions. Reflecting recent rapid program growth, it now (2016) covers all regions.

The 2004 OECD Principles of Corporate Governance and WBG Contributions

4. As stated in the Preamble to the 2004 Principles: "The Principles are intended to assist …governments in their efforts to evaluate and improve the legal, institutional and regulatory framework for corporate governance in their countries and to provide guidance and suggestions to stock exchanges, investors, corporations, and other parties that have a role in the process of developing good corporate governance. The Principles focus on publicly traded companies..."

5. The Principles have evolved over time and their fine tuning continues. A new version has come out in the fall of 2015, but this evaluation uses the former standard, which was in effect over the evaluation period. Initially, they highlighted five main areas: (1) shareholders rights and key ownership functions; (2) equitable treatment of shareholders; (3) the role of other stakeholders; (4) disclosure and transparency; and (5) responsibilities of the board. In 2004, a new category was added to address issues in the sphere of economic authorities and regulatory bodies; the overall governance framework, its legal enforceability, the clarity of regulatory responsibility and regulatory authority, integrity and resource commitments.

6. Further reviews are underway especially with regard to the financial crisis which revealed weaknesses where existing standards failed to provide adequate checks and balances. Consequently, the OECD launched an ambitious action plan to develop a set of recommendations to improve areas such as risk management, board practices, remuneration, and the exercise of shareholder rights. Peer reviews of these additions have also been conducted.

World Bank-IMF Contributions to Improved Corporate Governance: FSAPs and ROSCs

7. Beyond regulatory frameworks, developing good corporate governance frameworks is a cornerstone of building the 'soft' aspects of sound capital markets infrastructure. Both IFC and the Bank have supported good corporate governance principles, essential for building investors'

[32] IFC's support to state enterprise privatization in the 1990s led to its support for establishing sound corporate governance in newly-created private sector companies. Today, its most recent strategy, the "Road Map for 2015-2017", also emphasizes *inter alia* the promotion of good corporate governance.

confidence and deepening equities markets. Corporate governance in a capital market context deals with the way in which holders of corporate stock in listed companies, especially minority shareholders, are fairly treated and protected from predation by management and majority shareholders.

8. WBG built upon early work in this area by the OECD, which developed the cornerstone for principles of corporate governance (2004). And a good example of collaboration between the IFC and WB is the Global Corporate Governance Forum, a multi-donor trust fund facility located within the IFC, co-founded in 1999 together with the World Bank and the OECD. Financed by the World Bank, OECD, bilateral donations and trust funds, IFC and other institutional partners have benefitted from its array of services

9. Fremond and Capaul (2002) reviewed 15 corporate governance Reports on Observance of Standards and Codes (ROSCs); a framework itself based on the OECD principles. Corporate governance was also the subject of a joint WB/IMF/Brookings conference, (Litan, Pomerleano and Sundarajan 2002) who concluded that there is a need to enhance transparency and contestability of markets. Carson (2003), in a Bank commissioned paper, discussed corporate governance of stock exchanges in the context of demutualization (the transition of an exchange from a not-for-profit to a for-profit form), a topic also discussed by Elliott (2002) in an IMF paper. A recent scholarly overview of corporate governance in emerging markets (Pargendler 2014) points out why this has risen to importance with the increase in prominence of cross border investments, and Grimminger and Bendetta, with the World Bank and IFC (2013) summarize attempts made by 8 stock exchanges to create indices of 'good governance' firms. Corporate governance programs at the WBG finance and markets practice encompass banks, SOEs as well as general corporate entities – ROSCs are the standard form of support to the latter, and are the only form of the corporate governance activity included in the WBG portfolio. IFC's corporate governance development program today focuses on a number of broad areas, ranging from 'due diligence' of proposed investee companies, legal and regulatory issues, training fora, and public awareness campaigns.

IFC Contributions to Corporate Governance

10. A special area of comparative advantage of IFC's corporate governance staff, within the World Bank Group, across the spectrum of OECD Principles, lies in its advice on corporate boards of directors, especially though a significant focus on board committees.

11. The rationale for board committees as distinct from management committees is that smaller groups of board directors, operating in select key committees, can best oversee the preparation of papers and reports on matters requiring board decisions; reducing the unwieldiness of involving the full board on matters requiring a significant amount of technical detail, while at the same time safeguarding the process from any self interest that management

committees may exhibit. Board committees, comprised exclusively of independent members have been encouraged by recent mainstream thinking, on key topics like the Financial Committee and Audit Committee. And the eligibility criteria for a director to be deemed independent have tightened considerably in recent years.

12. In countries where important IFC corporate clients are publicly listed but predominantly family-owned, it can be difficult to find sufficient independent external board members. For example, in India there has been recent debate as to whether or not government-appointed nominee directors to corporate boards are truly independent. Board independence can be materially diluted in many countries when interlocking corporate ownership patterns provide opportunities for circumventing director (and thus board) independence. Cross directorships and tiered directorships are sometimes examples.

13. IFC's advisory modules for CG support encompass a wide spectrum of areas. Popular modules in its advisory work include corporate governance for the family owned business; training modules for regulators and board directors; information on mediating corporate governance disputes; a two-volume manual for setting up and conducting the essential function of the board secretariat; and developing corporate governance scorecards. Additionally, the unit pioneered a web-based portal dedicated to collaboration on corporate governance, to which some 34 development finance institutions (DFIs) currently subscribe. This unit also supports IFC's nominee board directors in the Corporation's investee companies. While the AS projects and knowledge products rolled out gradually, its commitment to better corporate governance through its network of nominee directors has been in place for much longer.

Appendix 6.2 Box 1 Country Use of WB CG ROSC Diagnostics – Progress and Areas of Difficulty

Brazil is one example where progress in corporate governance was realized, following its CG ROSCs (2000, 2002, 2005 and 2012), largely on its own, although it did benefit from earlier WB development policy loans (DPLs). Reforms were noted in the strengthening of shareholder rights, exercise of control, board director and manager disclosure and ethical standards. Stakeholder disclosure and disproportionate control disclosure however showed deterioration. Brazil's Novo Mercado, an alternative listing tier on the Bovespa stock exchange, for good governance companies, demonstrates the success of an informed voluntary approach. Brazil's market capitalization and number of listings grew materially.

In **Croatia** the World Bank undertook CG ROSCs in 2001 and in 2008. The 2001 CG ROSC recommended tighter disclosure of ownership and control structures, introducing a CG Code of best practice, strengthening the requirement for auditor independence, requiring boards to have audit committees and harmonizing existing disclosure laws. The 2008 CG ROSC found several framework enhancement, a single regulator, and as recommended, a CG Code. Other reforms were also introduced many of which addressed earlier issues identified - partly propelled by Croatia's aspiration of joining the European Union.

Ghana – The first CG ROSC undertaken for Ghana in 2005 found that Ghana needed to address raising awareness of transparency and accountability, including director training; continuing the process of legislative review and modernization; insider trading, ownership disclosure, management conflicts of interest, and shareholder redress. The 2010 CG ROSC found that basic shareholder rights were in place, transparency and disclosure with respect to accounting and auditing had improved and board practices had been strengthened with explicitly defined board member roles and duties and partly-independent

audit committees. However, it also found that weaknesses remained with respect to shareholder redress, regulation of related party transactions and conflicts of interest, and some remaining weaknesses regarding board member powers and training.

Philippines – The World Bank CG ROSCs took place in 2001 and 2006. Disclosure was a major issue in the first, including beneficial ownership, regulation of related party transactions and conflicts of interest, strengthening the role and influence of minority shareholders, and several areas related to board structure, roles and responsibilities. The 2006 CG ROSC found that in the interval, the regulators had undertaken significant reforms, including issuance of a Code of Corporate Governance, the adoption of IFRS and a new requirement for the training of directors. During the interval between the two CG ROSCs, significant reforms were introduced but the main challenges have been and continues to be in the areas of monitoring and enforcement.

Source: IEG.

Limitations of a 'Core Principles' Based Analysis

14. IEG recognizes that the Core Principles themselves may not provide the full picture of improvement or deterioration, due to interrelationships among some of the Principles and also due to concomitant precedence or simultaneity requirements. For example, to improve information to minority shareholders, countries may take actions to improve how annual and extraordinary shareholder meetings (AGMs and EGMs) are announced, convened and conducted. But these may have little consequence if the information shared with minority shareholders is itself not subject to adequate standards of accounting, disclosure and timeliness.

15. Country officials and company executives may take credit for improving lead times for notifying shareholders about the holding of annual or extraordinary general meetings, providing board papers to shareholders in advance, and extending meeting agendas to cover more topics. But by omitting crucial topics from agendas or by withholding essential information on those topics tabled for discussion, the ostensible improvements may, in fact, be illusory.

16. Similarly, if ownership patterns are skewed, actions to strengthen shareholder rights, such as the right to elect and remove directors, may be ineffective if devices, such as cumulative voting, are not put in place to give minority shareholders a chance of exerting their influence. Or, efforts to strengthen the appointment of directors may be of little avail if directors are not held accountable to clear standards of fiduciary responsibility, or if directors are permitted to act on a representative basis instead of for the best interests of the corporation and its stakeholders.

17. Such deeper issues have also been noted by the authors of the Core Principles, especially after some spectacular failures in governance came to light in the US and elsewhere in the last decade. A new version has just been agreed.

IEG'S EVALUATIVE APPROACH – MEASURING CHANGES OVER TIME AGAINST THE ROSC YARDSTICK

18. IEG's evaluation focuses on the influence of WBG work on countries' corporate governance. IEG does not attempt to evaluate the ROSCs themselves - the Bank's major instrument of intervention - given that ROSCs are broadly uniform and standardized diagnostics that follow a standard template. And IEG reviews but does not attempt to individually evaluate individual WB or IFC interventions, given the small share of CG elements in many interventions, and the paucity of evaluative material.33 Instead, a three-pronged approach has been adopted, that uses the standardized yardstick offered by assessments of 'good governance' in CG ROSCs to measure outcomes, in terms of changes achieved in corporate governance. IEG measures changes in corporate governance in WBG client countries by undertaking comparative assessments over periods of time in those countries which had sequences of assessments over time. IEG assesses the extent to which such changes may at least be associated with, if not attributed to, WBG interventions, i.e., to see whether later ROSCs reflect any changes in the observation of good governance principles. Next, IEG compares the timing and content of WBG lending or advisory interventions, to see whether they follow from and reflect the diagnostics of the ROSCs – that is, to see whether they responded to known corporate governance issues in the countries concerned. Finally, IEG triangulates these findings with information obtained from desk reviews of relevant clusters of projects, field visits and interviews with CG staff.

19. IEG reviewed the full portfolio of corporate governance activities in all countries where there had been CG related activities, and then identified those countries where at least two WBG CG support interventions were provided, at different times. The full portfolio yielded a set of 124 CG related activities in 35 countries and 3 regions (Appendix 6.2 Annex Tables A6.2.1 A6.2.2, and A6.2.3). CG ROSCs accounted for two fifths of all interventions and formed the bulk of WB support. Thirty one countries had at least one CG ROSC over the period of review. For 17 of these countries, two (or more) CG ROSCs were completed, and therefore scores over time were available. Findings are summarized in Table 1 below.[34]

[33] The few available self-evaluations, mostly for IFC, are in terms of numbers of persons reached, trained etc., and are largely based on outputs and not outcomes.

[34] Details at the level of each sub-principle are provided in Appendix 6.2 Annex Table A6.2.4. The analysis was complicated by changes in the rating point system over time and efforts were made to ensure consistency. The analysis includes only those indicators for which there were ratings in both periods.

Appendix 6.2 Table 1 Improvements over Time in Corporate Governance: Pairwise Analysis of CG ROSCs (2004-2015)

Country	Numbers of Ratings				Percent of Total Ratings				All Inter ventions Sequence and Type	Total Inter ventions
	Impro-ved (Nos)	Unch--anged (Nos)	Deteri orated (Nos)	Total (Nos)	Impro ved (%)	Unch-anged (%)	Deteri orated (%)	Tot al		
Azerbaijan	20	12	0	32	63	38	0	100	R AS R	3
Brazil	7	14	2	23	30	61	9	100	R R R R	4
Colombia	13	4	6	23	57	17	26	100	R L R	3
Croatia	12	3	8	23	52	13	35	100	R R	2
Egypt	1	8	13	22	5	36	59	100	R R L R L	5
Ghana	14	11	7	32	44	34	22	100	R R	2
India	15	8	0	23	65	35	0	100	R R A A A A	6
Indonesia	10	12	1	23	43	52	4	100	R R A A	4
Malaysia	13	4	6	23	57	17	26	100	R R R	3
Mauritius	17	6	0	23	74	26	0	100	R R	2
Morocco	10	7	6	23	43	30	26	100	R R A	3
Philippines	11	7	4	22	50	32	18	100	R R	2
Russia	13	9	1	23	57	39	4	100	R AS A R	4
Saudi	7	12	0	19	37	63	0	100	R R A A	4
Thailand	8	19	5	32	25	59	16	100	A R R A	4
Ukraine	9	12	1	22	41	55	5	100	R AS R L A	5
Vietnam	22	10	0	32	69	31	0	100	R A AS AS	5
Totals	**202**	**158**	**60**	**420**	**48**	**38**	**14**	**100**		**61**

Source: See Part 4.2 Appendix Table 1. IEG analysis.
Note: R: ROSC; A: WB AAA, AS: IFC Advisory services and L: WB loan. Totals refer to total comparable ratings.

20. On the whole, client countries' corporate governance broadly improved over time. Across the 17 countries and 37 CG ROSCs analyzed, there were 418 individually rated sub Principles. Of these, 204, or close to half, improved over time, across all countries and 155 (37 percent) remained largely unchanged. Only 59 (14 percent) showed some deterioration. Ten out of 17 countries had improvements in most indicators (half or more), with Vietnam and Azerbaijan showing the most improvement; 5 countries mostly remained unchanged (although in Brazil improvements had taken place following early ROSCs of 2000 and 2002, predating the two CG ROSCs in or after 2004). One country (Egypt) showed mostly deterioration in its indicators. These scores suggest that on average, there was improvement in at least half the CG ROSC principles, and in around two thirds of the countries (Table 2).

Appendix 6.2 Table 2 Improvements Over Time in CG ROSC Ratings – Analysis by Country (2004-2014)

Item	Number of countries	Country name
Countries for which most of the indicator ratings improved.	10	Azerbaijan, Colombia, Croatia, Ghana, India, Malaysia, Mauritius, Philippines, Russia, Vietnam
Countries for which most of the indicator ratings remained the same	5	Brazil, Indonesia, Thailand, Ukraine, Saudi Arabia
Countries for which most of the indicators ratings deteriorated	1	Egypt

Source: IEG
Note: For one country, Morocco, changes were ambiguous in direction, with less than half of its indicators (43%) improving, but around a quarter declining (26%), and around 30% remaining unchangedLooking at individual areas among the Core Principles, improvements appear to predominate in areas that are easier to tackle. These are areas such as accounting and auditing (12 out of 17 countries) and independent external audit (10 out of 17). They are not related to the rights of shareholders. Although there are also gains in 'basic shareholder rights', gains are noticeably fewer in specific areas such as 'disproportionate control disclosure' or 'shareholders' rights to participate in fundamental decisions' (Appendix 6.2 Annex Table A6.2.4).[35]

21. In a majority of countries, WBG CG interventions were timed to take advantage of the diagnostic guidance provided by ROSCs, though in a third to two fifths of countries the WB and IFC had CG work programs unrelated to ROSCs. IEG first examined the extent to which the WBG was able to use the CG ROSC findings as guideposts to contribute towards the design of its interventions by examining the timing of the ROSCs in each country, compared to the timing of additional WBG activities –lending, AS or AAA. Looking at the larger set of 35 countries which had at least 2 CG activities of any form, as well as the smaller set of 17 countries which had at least two CG ROSCs, the results are similar. In almost half the countries, initial diagnostics were followed by an advisory intervention by either the WB or IFC, and in 3 out of 35 countries, or 2 out of the 17 countries, there was a follow up WB loan, which had CG related components. Thus in slightly less than two thirds (of the 35 countries) to three fifths (of the 17 countries), WBG interventions were at least timed so that they could benefit from the detailed CG diagnostics of the ROSC, and there was opportunity to structure them into the interventions undertaken. Nevertheless, there were also outliers – six countries where multiple ROSCs were undertaken with no further WBG follow up, and also, 4 where there were repeated advisory interventions though no ROSC diagnostics.

[35] IEG recognizes that the Core Principles themselves may not provide the full picture of and their design is not perfect. In September 2015 the G20 agreed a revised set of CG Principles that take some current issues into account.

Appendix 6.2 Table 3 Sequencing of WBG Corporate Governance Activities Relative to ROSC Diagnostics

Total Countries	35	17
Countries where Rosc was followed by AS or AAA alone	**17**	**7**
o/w IFC AS	7	5
ROSCs follwed by loans alone (**Egypt, Mexico, Colombia**, Ukraine)	**3**	**2**
o/w ROSCs follwed by loans and AS or AAA (Bosnia and Ukraine)	2	1
Only ROSCS (**Brazil Croatia Ghana Malaysia Mauritius Philippines**)	**6**	**6**
AS or AAA before ROSC (Kyrgyz, Nigeria, **Thailand**)	**2+(1)**	**(1)**
AS / AAA only, no ROSC (China, Kazakhstan, Lebanon, Serbia)	**4**	0

Source: IEG.

22. Average outcomes in terms of improvements in corporate governance however show little difference between countries with subsequent WBG CG interventions and those with no such interventions. IEG compared the *results*, in terms of improvements in governance, between those countries where the WBG had made subsequent interventions, whether through WB loans, AAA or IFC AS, and those countries where the WBG did not offer any additional support apart from the ROSCs (Table 3). This analysis is necessarily based upon those 17 countries for which pairwise comparisons of corporate governance ratings are possible, through at least two CG ROSCs. In the 6 countries where there were no WBG interventions apart from the ROSCs, results appear somewhat better compared to those countries where there was additional WB intervention (51 percent of indicators improved compared to 47 percent for the entire group, or 49 percent for the countries that did have WB interventions). However these countries also had somewhat higher proportions of indicators that deteriorated: 18 percent compared to 14 percent for all 17 countries, or just 12 percent for the countries that did have WBG follow up.

23. These findings suggest an ambiguous outcome for the additional WBG interventions. However, the 6 countries with no additional follow up are also among the more sophisticated WBG clients: all except Ghana are middle income countries. For such countries, the diagnostic value of the ROSC itself could be useful, without the need for WBG support for implementation. And among the countries where the WBG did intervene, results are heavily weighed down by the inclusion of Egypt, where arguably external forces at this time were of primary significance. These results are largely substantiated by a closer look at relevant country and project documentation, which suggests that indeed specific ROSC-identified recommendations were acted upon, even in the absence of further WB interventions (Box 2). Overall, this numeric analysis of corporate indicators over time suggests that most client countries made progress in their corporate governance environments; some on their own with no need for further support from the WBG after an initial diagnostic, others may have benefitted from support (Azerbaijan, India, Vietnam), and in some cases deterioration was likely due to known external factors (Egypt).

Appendix 6.2 Table 4 Comparison of Corporate Governance in Countries with / without WBG follow up.

	Numbers of Ratings				Percent of Total Ratings (Avg)		
	Impro ved ratings (Nos)	Un-changed ratings (Nos)	Ratings deterio rated (Nos)	Total com parable ratings (Nos)	Impro ved ratings (%)	Un-changed ratings (%)	Ratings deterio rated (%)
All 17 countries with at least 2 ROSCs							
Total / Avg	**202**	**158**	**60**	**420**	**48%**	**38%**	**14%**
ROSCs, No other interventions (6)							
Total / Avg	74	45	27	146	51%	31%	18%
ROSC, WB Loan or AAA; IFC AS (9)							
Total / Avg	128	113	33	274	*47%*	*41%*	*12%*

Source: IEG.

Appendix 6.2 Box 2 Country Use of WB CG ROSC Diagnostics – Progress and Areas of Difficulty

Brazil is one example where progress in corporate governance was realized, following its CG ROSCs (2000, 2002, 2005 and 2012), largely on its own, although it did benefit from earlier WB development policy loans (DPLs). Reforms were noted in the strengthening of shareholder rights, exercise of control, board director and manager disclosure and ethical standards. Stakeholder disclosure and disproportionate control disclosure however showed deterioration. Brazil's Novo Mercado, an alternative listing tier on the Bovespa stock exchange, for good governance companies, demonstrates the success of an informed voluntary approach. Brazil's market capitalization and number of listings grew materially.

In **Croatia** the World Bank undertook CG ROSCs in 2001 and in 2008. The 2001 CG ROSC recommended tighter disclosure of ownership and control structures, introducing a CG Code of best practice, strengthening the requirement for auditor independence, requiring boards to have audit committees and harmonizing existing disclosure laws. The 2008 CG ROSC found several framework enhancement, a single regulator, and as recommended, a CG Code. Other reforms were also introduced many of which addressed earlier issues identified - partly propelled by Croatia's aspiration of joining the European Union.

Ghana – The first CG ROSC undertaken for Ghana in 2005 found that Ghana needed to address raising awareness of transparency and accountability, including director training; continuing the process of legislative review and modernization; insider trading, ownership disclosure, management conflicts of interest, and shareholder redress. The 2010 CG ROSC found that basic shareholder rights were in place, transparency and disclosure with respect to accounting and auditing had improved and board practices had been strengthened with explicitly defined board member roles and duties and partly-independent audit committees. However, it also found that weaknesses remained with respect to shareholder redress, regulation of related party transactions and conflicts of interest, and some remaining weaknesses regarding board member powers and training.

Philippines – The World Bank CG ROSCs took place in 2001 and 2006. Disclosure was a major issue in the first, including beneficial ownership, regulation of related party transactions and conflicts of interest, strengthening the role and influence of minority shareholders, and several areas related to board structure, roles and responsibilities. The 2006 CG ROSC found that in the interval, the regulators had undertaken significant reforms, including issuance of a Code of Corporate Governance, the adoption of IFRS and a new requirement for the training of directors. During the interval between the two CG ROSCs, significant reforms were introduced but the main challenges have been and continues to be in the areas of monitoring and enforcement.

Source: IEG.

A REALITY-CHECK: PORTFOLIO REVIEW

World Bank Lending and AAA to Support Corporate Governance

24. Actions flagged in WB DPLs sometimes reflected ROSC diagnostics though corporate governance issues were only included as a small element. IEG further examined the nature and impact of CG-related interventions in terms of WB lending and advisory work, and IFC advisory interventions. In the case of Colombia for example, two CG ROSCs were conducted, in 2003 in 2011. The first clearly identified the principal issues in Colombia to include the power and influence wielded by a few large economic groups, together with accounting and auditing which lag international standards and disclosure. Despite the incorporation of corporate governance as a theme in the Colombia DPL of 2006, the 2011 CG ROSC found that the problems with groups remained unresolved, and only limited progress was achieved towards adopting IFRS; a conclusion supported by the IEG mission to Colombia. While a CG Code had been introduced, progress is limited by its voluntary nature. In Mexico, and Egypt, issues noted in corporate governance ROSCs were followed by World Bank DPLs and also by an IDF grant in Egypt. Such support had partial success; much depended on countries' own initiatives or prevailing government support.

25. As regards WB AAA, other than the ROSCs themselves, many documents appear miscoded or tangential to relevant issues. In India, only one of two AAA interventions labeled as CG-related in fact dealt with the subject. In the Czech Republic, an in-depth assessment of the domestic insurance industry alluded briefly to corporate governance but without in-depth treatment. In China (where no CG ROSCs were undertaken), one AAA intervention advanced a reform agenda for state-owned banks, including recommendations on corporate governance, without in-depth treatment. Thus the World Bank's most valuable contributions towards corporate governance remain primarily its CG ROSCs.

IFC Advisory Services to Support Corporate Governance

26. IEG also reviewed 25 IFC advisory service CG interventions in 18 countries and found around half mentioned ROSCs, and all provided support in a spectrum of areas including, especially, to regulators. In a number of cases (Bosnia, Kyrgyz Republic, Macedonia, FYR, Nigeria, Russia, Ukraine and Vietnam), WB support was also provided in addition to IFC AS support, which dilutes the possibility of attribution specifically to IFC. Almost half these IFC AS activities, and two thirds of the countries, were in the ECA region – reflecting the initial focus of IFC's corporate governance work on former Soviet Union countries. Eleven interventions in nine countries (out of 18) included a reference to the diagnosis of an FSAP/ROSC. In four countries (China, Georgia, Nigeria & Serbia) there was a pre-existing ROSC report at the time of IFC's AS intervention. Examples of AS interventions that drew on the ROSC findings included Malawi where a stakeholder's workshop was organized to discuss the findings of the ROSC and to develop an action plan. In Azerbaijan, IFC's policy advice addressed the concerns raised in

the ROSC diagnostic report. However In the case of Vietnam and Macedonia, FYR each of which had 2 AS interventions, only one mentioned the ROSC's findings. A review of the these reports in the areas of support to regulators as well as capacity building, public awareness building and direct institutional support finds that support was highest for work with regulators compared to direct assistance to enterprises and banks. (Table 5 and Box 3). The assessment framework is based on IFC's Corporate Governance goals.[36] Virtually all interventions focused on at least three out of five of these areas.

Appendix 6.2 Table.5 Areas of Support for Corporate Governance in IFC AS activities.

Dimension	Work with regulators and government agencies on the legal framework for CG.	Direct assistance to enterprises related to corporate governance.	Direct assistance to banks/financial institutions for assessment of client CG practices	Raising public awareness of corporate governance issues	Developing local expertise related to corporate governance
Average score across 25 IFC AS projects	2.76	1.84	0.72	2.12	2.24

Source: IEG.
Note: Rated on a scale of 0 (no support) to 3 (high support).

Appendix 6.2 Box 3 IFC Support for Corporate Governance

IFC activities to **support improving the legal framework for CG** involved providing comments on new laws and regulations (China, Vietnam), helping amend existing codes and regulations (Kyrgyz, Ukraine), and providing comparative studies/international best practice of legislation in other countries (Vietnam). In some countries, IFC's projects helped establish a CG code or related legislation, where none previously existed and in others, it helped strengthen the existing legal framework (Senegal, Lebanon). In three countries (Vietnam, Macedonia, FYR, and Serbia) IFC's AS interventions helped develop CG scorecards assess the quality of CG practices among listed companies.

Direct assistance to enterprises featured moderately among the activities undertaken in IFC's CG advisory services, in 17 out of 25 interventions reviewed.There was variability in the forms of assistance rendered, from full Corporate Governance Assessments (CGA), to training workshops, and one-on-one CG consultancy services to companies and banks, often with observable positive outcomes. As a result of IFC's CG intervention in Pakistan, companies implemented positive changes in their board structures and compositions, as well as improvements in internal controls and accounting practices.

Building public awareness of corporate governance issues was a crucial component in all the interventions reviewed. Twenty three of the 25 interventions reviewed had components aimed at raising public awareness of corporate governance issues, included the preparation of CG publications and training of media representatives. In Malawi, a survey conducted after the intervention indicated an increase in the awareness and knowledge of key CG issues, compared to the baseline.

Finally, support for CG **capacity building** was an important aspect. Twenty one interventions (84 percent) had components aimed at building local capacity. Activities under this component typically involved working with universities or through training of trainers programs. In Bosnia for example, the AS intervention helped establish the first post-graduate program in CG at Sarajevo University. The Pakistan Capacity Building project helped launch the first internationally accredited directors' training

[36] IFC's CG assessment methodology is also based on OECD Principles and thus broadly in conformity with the World Bank methodology, but with a focus on the functioning of companies and their boards.

program in the country. In Malawi, the intervention helped to train and establish a core faculty for the Institute of Directors Malawi, which now provides CG training to directors and senior managers.

Additionally, in some rare cases (6 interventions), IFC AS interventions provided indirect support for CG at the company level, **by helping commercial bank clients to assess their clients' CG practices**. In Ukraine, IFC helped design a CG assessment tool for bank credit to help the banks evaluate the governance practices of their corporate clients thereby improving their credit assessment process and reducing risk. In Azerbaijan, ten organizations introduced CG screening of their clients in the investment decision process as a result of the intervention.

Source: IEG.

World Bank – IFC Collaboration

27. Both WB and IFC have a mandate in this area and some fundamental differences in approach are inevitable, arising from the distinct mandates of the two institutions, though mutual recognition has improved. Because of its public-sector focus, the World Bank emphasizes interventions that fortify legal and institutional frameworks. IFC's operations aim in the first place at its private-sector company client base. IEG finds that over the years, better mutual recognition of the complementarity of their work is emerging. IFC's early corporate governance assistance, of necessity, involved a range of regulatory and advisory activities which significantly overlapped similar WB work – and still predominate in aggregate. Early coordination (during the Eastern European transition) was fragile but the paucity of Bank resources and compelling country needs prompted IFC to step in. After the first round of WB CG ROSCs, post 2004, staff from the two institutions began to increasingly – if not invariably - appreciate the natural complementarity of roles. In LAC, a joint program of World Bank and IFC corporate governance assistance allows the World Bank Group to speak with one voice as well as to dovetails each other's programs. Yet such collaboration has not necessarily been the consequence of institutional mandates so much as commitment at the staff level among colleagues in both the Bank and IFC with a shared resolve and compatible work styles. Evidence of WB-IFC collaboration has been evident in Colombia, Kenya, and Vietnam; three of the five case study countries underpinning this report.

CORPORATE GOVERNANCE - A SUMMARY

28. IEG's review finds, first, that most client countries made progress in their corporate governance environments. Some did so on their own with limited support from the WBG after an initial diagnostic, while over half may have benefitted from WBG support. Deterioration in some prominent WBG clients was likely due to known external factors. Second, in a majority of countries, the World Bank's ROSC assessments were able to provide information for WBG corporate governance interventions, though in over a third of countries both the WB and IFC had work programs for corporate governance likely unrelated to the assessment. Third, supplementary support in countries where corporate governance assessments were combined with other forms of WB interventions – lending or advisory - had partial success. Some areas of

success were arguably easier to attain, for example, improvements in accounting and auditing, or independence of external auditors. Gains are noticeably fewer in difficult areas such as 'disproportionate control disclosure' or 'shareholders' rights to participate in fundamental decisions,' as well as with respect to enforcement. Fourth, IFC interventions largely achieved target outputs and there is still emphasis on regulatory support, albeit also with direct assistance. Finally, over the years, improved mutual awareness of WB and IFC corporate governance interventions is emerging although there may be scope for more formal and systematic cooperation.

Appendix 6.2 Annex Table A6.2.1 WBG Sequences of Corporate Governance Activities: Type of Activity and Time Period

WBG Support: By Type of Intervention	Number of CG activities	% Total
CG ROSC	52	42
WB AAA Project	41	33
IFC AS project	25	20
WB Loan	6	5
Total	**124**	**100**
By Time Period	**Number of CG activities**	**Annual average**
2000-2002	13	4
2003-2005	28	9
2006-2008	36	12
2009-2011	26	9
2012-2014	21	7
Total	**124**	**8**

Source: IEG.

Appendix 6.2 Annex Table A6.2.2 WBG Corporate Governance Activities by Country and Type of WBG Support

ROSC Only	ROSC + WB only	ROSC +IFC only	ROSC + IFC + WB	Advisory Only	Total
Brazil	Bangladesh	Azerbaijan	Bosnia and Herz.	China (WB +IFC)	
Croatia	Bulgaria	Georgia	Kyrgyz Republic	Kazakhstan (WB+IFC)	
Ghana	Colombia	Malawi	Macedonia, FYR	Lebanon (WB +IFC)	
Malaysia	Czech Rep.	Mongolia	Nigeria	Serbia (IFC)	
Mauritius	Egypt	Pakistan	Russia	East Asia and Pacific (WB)	
Philippines	India	Senegal	Ukraine	Mid.East& N. Afr (WB+IFC)	
	Indonesia		Vietnam	World (WB)	
	Mexico				
	Moldova				
	Morocco				
	Saudi Arabia				
	Thailand				
6	**12**	**6**	**7**	**7**	**38**

Source: IEG.

Appendix 6.2 Annex Table A6.2.3 WBG Corporate Governance Interventions 2000-2014: Countries with at least two Interventions

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total	Sequence
Azerbaijan						ROSC; IFC AS				ROSC						3	R AS R
Bangladesh									ROSC				AAA	AAA		3	R A A
Bosnia and Herzegovina							ROSC; IFC AS	Loan	AAA	IFC AS						5	R AS L A AS
Brazil		ROSC	ROSC			ROSC							ROSC			4	R R R R
Bulgaria			ROSC						AAA							2	R A
China						AAA; AAA				IFC AS				AAA		4	A A AS A
Colombia				ROSC			Loan				ROSC					3	R L R
Croatia		ROSC						ROSC								2	R R
Czech Republic			ROSC			AAA										2	R A
East Asia and Pacific					AAA	AAA	AAA	AAA								4	A A A A
Egypt, Arab Rep.		ROSC			ROSC			Loan		ROSC	Loan					5	R R L R L
Georgia		ROSC				IFC AS										2	R AS
Ghana						ROSC						ROSC				2	R R
India		ROSC			ROSC	AAA		AAA	AAA	AAA						6	R R A A A A
Indonesia					ROSC						ROSC; AAA				AAA	4	R R A A
Kazakhstan						IFC AS			AAA							2	AS A
Kyrgyz Republic								IFC AS	AAA		ROSC					3	AS A R
Lebanon								AAA; IFC AS								2	A AS
Macedonia, FYR						ROSC;AAA	AAA; IFC AS			IFC AS						5	R A A AS AS
Malawi								ROSC		IFC AS						2	R AS
Malaysia	ROSC					ROSC							ROSC			3	R R R
Mauritius			ROSC									ROSC				2	R R
Mexico				ROSC			Loan									2	R L

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total	Sequence
Middle East North Africa							IFC AS			IFC AS: IFC AS				AAA		4	AS AS AS A
Moldova					ROSC		AAA									2	R A
Mongolia										ROSC	IFC AS					2	R AS
Morocco			ROSC								ROSC				AAA	3	R R A
Nigeria									AAA; IFC AS	ROSC						3	A AS R
Pakistan						ROSC		IFC AS			IFC AS					3	R AS AS
Philippines		ROSC					ROSC									2	R R
Russian Federation				ROSC		IFC AS						AAA		ROSC		4	R AS A R
Saudi Arabia								ROSC	ROSC				AAA	AAA		4	R R A A
Senegal							ROSC		IFC AS							2	R AS
Serbia							IFC AS			IFC AS						2	AS AS
Thailand					AAA	ROSC							ROSC; AAA			4	A R R A
Ukraine			ROSC			IFC AS	ROSC			Loan					AAA	5	R AS R L A
Vietnam							ROSC		AAA	IFC AS	IFC AS				ROSC	5	R A AS AS R
World					AAA								AAA; AAA	AAA;AAA	AAA;AAA	7	A A A A A A A
Total	**1**	**6**	**6**	**3**	**7**	**18**	**14**	**11**	**11**	**14**	**9**	**3**	**8**	**7**	**6**	**124**	
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	Total	
ROSC	1	6	6	3	4	7	5	3	2	4	4	2	3	1	1	52	
WB Len							2	2		1	1					6	
WB AAA					3	6	3	3	7	1	1	1	5	6	5	41	
IFC AS						5	4	3	2	8	3					25	
Total	**1**	**6**	**6**	**3**	**7**	**18**	**14**	**11**	**11**	**14**	**9**	**3**	**8**	**7**	**6**	**124**	

Notes:Excluding Bulgaria's reported 2008 CG ROSC which was in fact an Accounting and Auditing ROSC. Also one each of the reported ROSCs for the Czech Republic, Poland and Romania were not in a comparable format. Saudi Arabia is included based upon a first unpublished CG ROSC in 2007.

Appendix 6.2 Annex Table A6.2.4 – Progress Over Time in Corporate Governance- CG ROSC Scores of 17 Countries

Progress over time in Corporate Governance: Analysis Based on Countries with Two or More Corporate Governance ROSCs																															
	Legend: O = Observed; LO = Largely Observed																														
	PO = Partially Observed; MO = Mostly non-Observed																														
	NO = Not Observed	*Country 6*						*Country 7*						*Country 8*						*Country 9*						*Country 10*					
		6. Ghana 2005 2010						7. India 2001 2004						8. Indonesia 2004 2010						9. Malaysia 2001 2005						10. Mauritius 2002 2011					
	ROSC Principle:	NO	MO	PO	LO	O		NO	MO	PO	LO	O		NO	MO	PO	LO	O		NO	MO	PO	LO	O		NO	MO	PO	LO	O	
1	**Ensuring the Basis for an Effective Corporate Governance Framework**																														
1A	Overall Corporate Governance Framework			L	E		1						0			L			0				L		0			L			0
1B	Legal Framework Enforceable/Transparent			EL			2						0			L			0				L		0				L		0
1C	Clear Division of Regulatory Responsibilities			EL			2						0				L		0				L		0			L			0
1D	Regulatory Authority, Integrity, Resources		E	L			3						0			L			0				L		0				L		0
2	**The Rights of Shareholders and Key Ownership Functions**												0																		
2A	Basic Shareholder Rights		E		L		3			E		L	3			E		L	3				L	E	1			E	L		3
2B	Right to Participate in Fundamental Decisions				EL		2					EL	2				EL		2			L		E	1			E	L		3
2C	Shareholder AGM Rights			L	E		1			E		L	3			L	E		1			E	L		3			EL			2
2D	Disproportionate Control Disclosure			EL			2			E	L		3		EL				2		E		L		3			EL			2
2E	Control Arrangements Allowed to Function		E			L	3					EL	2		E		L		3				EL		2			E	L		3
2F	Exercise of Ownership Rights Facilitated		E	L			3		EL				2		E	L			3			EL			2	EL					2
2G	Shareholders Allowed to Consult One Another					EL	2											L	0				L		0				L		0
3	**Equitable Treatment of Shareholders**																														
3A	All Shareholders Should Be Treated Equally			EL			2			EL			2			E	L		3			L	E		1			E	L		3
3B	Prohibit Insider Trading			EL			2			EL			2			EL			2				L	E	1			E	L		3
3C	Board/Managers Disclose Interests		E	L			3		E	L			3			EL			2				L	E	1			E	L		3
4	**Role of Stakeholders in Corporate Governance**																														
4A	Legal Rights of Stakeholders Respected				E	L	3		E			L	3			E	L		3			E	L		3			E	L		3
4B	Stakeholder Redress			E	L		3		E		L		3			EL			2			E	L		3			EL			2
4C	Performance-enhancing Mechanisms				L	E	1		E			L	3			E	L		3			E	L		3		E		L		3
4D	Stakeholder Disclosure			EL			2		E			L	3			E	L		3			E	L		3				EL		2
4E	Whistleblower Protection				EL		2									L			0				L		0	L					0
4F	Creditor Rights Law and Enforcement			E		L	3									L			0				L		0				L		0
5	**Disclosure and Transparency**																														
5A	Disclosure Standards			E	L		3			E	L		3			EL			2			E	L		3			E	L		3
5B	Standards of Accounting and Audit			E		L	3		E		L		3			E	L		3			E		L	3				E	L	3
5C	Independent Audit Annually		E	L			3		E	L			3			EL			2			E	L		3			E	L		3
5D	External Auditors Should Be Accountable			E	L		3									L			0				L		0				L		0
5E	Fair and Timely Dissemination			L	E		1					EL	2			E	L		3				L	E	1				EL		3
5F	Research Conflicts of Interest		E	L			3									L			0				L		0			L			0
6	**Responsibilities of the Board**																														
6A	Act with Due Diligence and Care			EL			2				EL		2			EL			2			EL			2			E	L		3
6B	Treat All Shareholders Fairly	E		L			3				EL		2			EL			2			E	L		3			E	L		3
6C	Apply High Ethical Standards			L	E		1		E			L	3			EL			2			EL			2			EL			2
6D	Fulfil Certain Key Functions		L		E		1		E		L		3			EL			2			E	L		3			E	L		3
6E	Exercise Objective Judgment		EL				2		E	L			3			E	L		3			E	L		3		E		L		3
6F	Provide Access to Information			L	E		1		E			L	3			EL			2			E	L		3			E	L		3
	Total pairs of sub-Principles reviewed						32						32						32						32						32
	Totals Improved						14						15						10						13						17
	Totals Unchanged						11						8						12						4						6
	Totals Deteriorated						7						0						1						6						0
	Total Scored						32						23						23						23						23
	Not scored						0						5						9						9						9

Note: Total Number of ROSCs examined:

Progress over time in Corporate Governance: Analysis Based on Countries with Two or More Corporate Governance ROSCs

Legend: O = Observed; LO = Largely Observed
PO = Partially Observed; MO = Mostly non-Observed
NO = Not Observed

		Country 11						*Country 12*						*Country 13*						*Country 14*						*Country 15*					
		11. Morocco 2003 2010						**12. Philippines 2001 2006**						**13. Russia 2004 2013**						**14. Saudi Arabia 2007 2009**						**15. Thailand 2005 2013**					
	ROSC Principle:	**NO**	**MO**	**PO**	**LO**	**O**		**NO**	**MO**	**PO**	**LO**	**O**		**NO**	**MO**	**PO**	**LO**	**O**		**NO**	**MO**	**PO**	**LO**	**O**		**NO**	**MO**	**PO**	**LO**	**O**	
1	**Ensuring the Basis for an Effective Corporate Governance Framework**																														
1A	Overall Corporate Governance Framework				L		0			L			0			L			0			EL			2				EL		2
1B	Legal Framework Enforceable/Transparent			L			0			L			0			L			0			E	L		3				EL		2
1C	Clear Division of Regulatory Responsibilities			L			0			L			0				L		0			E	L		3				EL		2
1D	Regulatory Authority, Integrity, Resources			L			0			L			0			L			0			E	L		3				EL		2
2	**The Rights of Shareholders and Key Ownership Functions**																														
2A	Basic Shareholder Rights				EL		2				EL		2		E		L		3			E	L		3				E	L	3
2B	Right to Participate in Fundamental Decisions				EL		2				EL		2				EL		2			EL			2			E	L		3
2C	Shareholder AGM Rights			L	E		1			EL			2				EL		2			EL			2			L	E		1
2D	Disproportionate Control Disclosure		E	L			3			EL			2		E	L			3			EL			2			L	E		1
2E	Control Arrangements Allowed to Function		E	L			3			L			0	E		L			3				EL		2				EL		2
2F	Exercise of Ownership Rights Facilitated	E		L			3			EL			2		L	E			1			L			0			L	E		1
2G	Shareholders Allowed to Consult One Another				L		0				L		0				L		0				L		0				EL		2
3	**Equitable Treatment of Shareholders**																														
3A	All Shareholders Should Be Treated Equally			EL			2			L	E		1		E		L		3					L	0			EL			2
3B	Prohibit Insider Trading		E	L			3			L	E		1		E	L			3			L			0				EL		2
3C	Board/Managers Disclose Interests		E	L			3		E	L			3			EL			2				L		0				EL		2
4	**Role of Stakeholders in Corporate Governance**																														
4A	Legal Rights of Stakeholders Respected		E		L		3				EL		2		E	L			3				L		0				EL		2
4B	Stakeholder Redress		E		L		3		E	L			3		E	L			3			L			0				EL		2
4C	Performance-enhancing Mechanisms		E	L			3		E	L			3			EL			2			L			0				EL		2
4D	Stakeholder Disclosure			L	E		1		E	L			3		E	L			3						??				EL		2
4E	Whistleblower Protection	L					0		L				0			L			0		L				0			E	L		3
4F	Creditor Rights Law and Enforcement								L				0			L			0				L		0				EL		2
5	**Disclosure and Transparency**																														
5A	Disclosure Standards		E	L			3			EL			2			EL			2			EL			2				EL		2
5B	Standards of Accounting and Audit		E		L		3		E		L		3				EL		2		E	L			3			E		L	3
5C	Independent Audit Annually			L		E	1		E	L			3			EL			2		E	L			3				EL		2
5D	External Auditors Should Be Accountable			L			0			L			0			L			0			L			0				EL		2
5E	Fair and Timely Dissemination				EL		2		E	L			3			E		L	3			EL			2				EL		2
5F	Research Conflicts of Interest				L		0			L			0	L					0		L				0			L	E		1
6	**Responsibilities of the Board**																														
6A	Act with Due Diligence and Care			L	E		1		E	L			3		E	L			3			EL			2			E	L		3
6B	Treat All Shareholders Fairly				L	E	1			L	E		1		E	L			3			EL			2				EL		2
6C	Apply High Ethical Standards				EL		2			L	E		1		E	L			3			EL			2			E	L		3
6D	Fulfil Certain Key Functions			EL			2		E	L			3			EL			2			EL			2			E	L		3
6E	Exercise Objective Judgment			EL			2		E	L			3			EL			2			EL			2			E	L		3
6F	Provide Access to Information			L	E		1		E		L		3		E	L			3				E	L	3			L	E		1
	Total pairs of sub-Principles reviewed						32						32						32						32						32
	Totals Improved						10						11						13						7						8
	Totals Unchanged						7						7						9						12						19
	Totals Deteriorated						6						4						1						0						5
	Total Scored						23						22						23						19						32
	Not scored						8						10						9						12						0

Appendix 6.3: The Western Hemisphere Initiative and Other Regional Payments Initiatives

1. The Western Hemisphere Payments and Securities Settlement Initiative (WHI), began in 1999 under the partnership of the World Bank and CEMLA (Center for Latin American Monetary Studies) and COSRA, the Latin American association of securities regulators, in collaboration with other international organizations (CPSS of BIS, IMF, IADB), as well as central banks (including the Federal Reserve Board, the Central Bank of Italy, Central Bank of Spain, etc.). As a result of its diagnostic assessments the World Bank was subsequently involved with reform implementation, through technical assistance loans (e.g., in Brazil, Honduras, Dominican Republic, Guatemala and Paraguay) and through advisory services (e.g., Bahamas, Barbados, El Salvador, Trinidad and Tobago, Venezuela and Jamaica) in several countries over the following decade. The WB role evolved from coordination to support of the Forum, that was firmly established in the region, housed in CEMLA. CEMLA and the Working Group on Payment System Issues of Latin America and the Caribbean (WGPS-LAC) continue to coordinate with the WB on the biannual "Global Payments Week"; one of the key events in the payment systems area at the international level. Examples of WHI assessment follow up interventions include a 2002 diagnostic of the Dominican Republic that was followed by a WB Technical Assistance Loan in 2004, leading to the adoption of a Real Time Gross Settlement System (RTGS) that went live in 2008. The assessments in Jamaica and Venezuela led to requests for fee based advisory services for payments and securities settlement systems reform.

2. Following a request from the central banks of the countries of the Middle East and North Africa (MENA) Region, the World Bank and the International Monetary Fund, in cooperation with the Arab Monetary Fund, led the Arab Payments and Securities Settlement Initiative (API), based on the SADCC central bank group (2005). Its objective was to assess the payment systems of MENA countries, identifying possible improvements in their safety, efficiency and integrity. An expert International Advisory Council (IAC) comprising IFIs, central banks and securities commissions from other regions supports the API. And as with the Western Hemisphere Payments and Securities Settlement Initiative (WHI), there have been several regional follow ups that still continue, many as Reimbursable Advisory Services (RAS), including, e.g., Oman, Saudi Arabia and Quatar.

Following a request from the central banks of the countries of the Commonwealth of Independent States (CIS), the World Bank led the CIS Payments and Securities Settlement Initiative (2004), following, once again, the pattern of country level diagnostics under the aegis of an expert International Advisory Council. As with the Western Hemisphere Initiative, follow up began in several countries with World Bank involvement. In this region too, the CIS Payments Initiative evolved into a permanent forum with the creation of the CIS Working Group on Payment Systems in 2008.

Appendix 6.4: Payments Projects Analyzed

1. IEG's portfolio identification of relevant payments and securities clearance and settlement projects for the Approach paper, beyond system codes, was based largely on word searches and additionally supplemented by the advice of Bank payments experts. It yielded 25 projects. For the present full evaluation, IEG supplemented its initial portfolio identification with a more detailed review, examining all available documentation for projects with a payments flag, and using a more granular classification according to whether they had high, medium or low content in the securities settlements area. Overall results were similar to those of the Approach Paper, with 10 core projects focused on securities settlement systems, and another 20 with medium securities settlement content. IEG also noted relevant current projects in 2014-2015.

Appendix 6.4 Table 1: World Bank Payments and Securities Settlement Systems Portfolio (2004-2015)

	All country level payments interventions 75	At least significant reference to securities settlement (30)	Core Reference to Securities Settlement (10)
By Region			
AFR	17	11	3
MNA	19	6	2
ECA	18	6	2
SAR	1	1	0
EAP	3	2	1
LCR	17	4	2
By Funding			
BB- Lending	21	12	2
BB- Advisory	20	5	2
FIRST	22	10	4
RAS	12	3	2
By Time period			
2002-2008	26	11	5
2009-2015	49	19	5

Source: IEG.
Note: Of the 75 country level interventions reviewed by IEG, 30 had significant content in the securities settlement area, and in 10 of these 30, there was major focus on securities settlement systems, whether in specific components or in the entire project.

2. As shown in **Appendix 6.4 Table 1** the payments portfolio is limited to the World Bank alone and consists mostly of analytical and advisory work (a third to a fifth or projects in all three categories represented lending). There is some regional clustering of interventions over time, following regional payments systems workshop roll-outs. In the first half of the period reviewed, there was a significant focus on Latin America, as well as Africa, which together accounted for 15 out of 26 projects in the period 2002-2008. In the latter period, demonstrating the effectiveness of new regional initiatives, waves of new projects began in the Middle East and North Africa (13), and Europe and Central Asia (12), comprising over half the total. Trust

funding and reimbursable services have provided substantial support for 34 out of the total of 75 projects reviewed and a higher proportion (6 out of 10) of projects with core content in the securities settlement space. And many of the 75 interventions (over four fifths of lending projects and half the non-lending projects), especially in Africa and Middle East, were coordinated with other donors and IFIs.[37]

[37] Kenya's Financial and Legal Sector Technical Assistance Project (FLSTAP) approved in 2004 was co-financed by DFID. Loans in Mozambique were built on the the coordination of multiple organizations; in 2009 a memorundam of understanding was signed by 19 institutions including the World Bank. And there was coordination with the IMF in the payment systems area in Ethiopia, Mozambique, Namibia, Rwanda, Azerbaijan, Moldova, and Morocco.

Appendix 6.5: Risk Reduction with Real Time Gross Settlement (RTGS) and Link to Securities Clearance[38]

1. If a country has an RTGS payments system, a bank can make a payment only if it has adequate balances in its settlement account at the central bank. Payments are thus made on a 'gross' basis. As a result, any liquidity problem is detected immediately. RTGS is the most certain way of eliminating interbank settlement risk. A RTGS system does not remove the possibility that a bank may fail and be unable to make timely payments, but it limits the problem to the failed institution.

2. In contrast, prior to the introduction to RTGS, banks used the Deferred Net Settlement (DNS) system, in which they continued to make payments throughout the day that were then netted against each other at the end of the day. Thus liquidity pressures were concentrated in the end-of-day settlement session. If a problem arose at that point, it involved dealing with the whole of the day's inward and outward payments, across all banks, and the need to 'unwind' payments – leading to the 'contagion' of bank failures. Loss-sharing rules meant other banks carried a share of the burden and depended for their efficacy on the robustness of netting law. By requiring prefunding of each payment, an RTGS system prevents settlement risk. It provides recipients with the assurance that payments are irrevocable and final; and it removes the possibility that the broader financial community will be caught up in the liquidity pressures that could follow a settlement failure.

3. While a small number of countries have had RTGS systems for certain high-value payments for some time, such as 'Fedwire' in the US, the SIC system in Switzerland and BOJ-NET in Japan since the late 1980s, developing countries began to move in this direction beginning with Thailand, South Korea and China, from around 1997. Others began to follow, several with the assistance of the World Bank. Securities clearance and settlement systems are now recognized as having the same inherent risks as those associated with systemically important payment mechanisms. Since securities trading requires transfer of ownership in tandem with the transfer of payment, well-functioning payments systems are a prerequisite for sound securities clearance and settlement systems. Government securities settlement has traditionally come under the oversight of the payments departments of central banks. Vendor provided RTGS hardware increasingly integrate elements such as automated clearing house (ACH) facilities for securities settlement. central banks as well as securities regulators today complement private services in the spectrum of public and private securities.

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[38] Sources: Keppler, (1999), Transforming Payment Systems: The Building Blocks and the World Bank's Role, World Bank/Federal Reserve Bank of New York (FRBNY); Guadamillas and Keppler (2001) Securities Clearance and Settlement Systems; Allsopp, Summers and Veale (2009) ' The Evolution of Real-Time Gross Settlement: Access, Liquidity and Credit, and Pricing. FPD, World Bank; CPSS, BIS (2008) "The Interdependencies of Payment and Settlement Systems."

Appendixes to Chapter 7

Appendix 7.1: – WBG Strategy Towards Infrastructure Finance

1. As witnessed by a series of strategy documents, financing infrastructure finance has received increasing emphasis as a priory for the WBG throughout the review period of this evaluation.39 At the outset of IEG's review period World Bank lending for infrastructure had dropped from US$10.6 billion in 1993 to US$5.4 billion in 2003. This led to the formulation of an Infrastructure Action Plan (IAP), FY04-07, to revitalize the institution's engagement in infrastructure, followed by subsequent Action Plans for FY 09-11 (which identified a $1 trillion gap in financing needs), and the most recently updated World Bank Group Infrastructure Strategy FY12-15, which lays out the framework for transforming the Group's engagement in infrastructure.[40]

2. Mention of capital markets financing for infrastructure has received varying degrees of emphasis. Thus the Action Plan for FY09-11 inter alia discussed both global and local capital markets as a possible source of infrastructure financing, to be supported by IFC's Global Financial Markets group. It also mentioned exploring use of WBG risk mitigation products and asset backed securities, and it emphasized the need to support PPP for infrastructure finance. The more holistic recent strategy for FY12-15 takes a broad view of what is required—in terms of partnership, knowledge, advice, and projects—for infrastructure to accelerate growth. It emphasizes the need for transformational engagement and recognizes the need to mobilize private capital and the importance of building public private partnerships. It mentions the need for support to capital market development as one element along the spectrum of PPP activities.

3. The present broad based approach of the WBG has been reaffirmed in the international sphere, where huge if nebulous financing deficits are discussed - e.g., the WBG umbrella report to the G20 on Long-Term Investment Financing for Growth and Development (2013); statements of the G20 Investing in Infrastructure working group (2014) on the need for long term infrastructure investments, to the tune of $2 trillion; and the 2015 Addis Ababa Action Agenda, which points to a "1 trillion to $1.5 trillion annual gap".[41] Most recently, during the 2015 IMF World Bank Annual Meetings in Lima, Peru, the WB's MD drew attention to the need

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[39] See http://siteresources.worldbank.org/INTSDNET/Resources/5944695-1241627159876/SIAPfinal.pdf

[40] Infrastructure Strategy Update FY12-15: Transformation Through Infrastructure. http://siteresources.worldbank.org/INTINFRA/Resources/Transformationthroughinfrastructure.pdf

[41] Addis Ababa Action Agenda – Third International Conference on Financing for Development July 13-16, 2015. It states that "…Investing in sustainable and resilient infrastructure, including transport, energy, water and sanitation for all, is a pre-requisite for achieving many of our goals." http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf ; G20 –Policy Note "Increasing Investment in Infrastructure" –August 2014 (Australia).

to mobilize capital market resources through institutional investors, such as pension funds, and to fill the funding gap for infrastructure in the developing countries.[42] Moreover the 2015 Global Financial Development Report focuses on the provision of long term finance, significantly in the context of capital market development.[43]

4. Moreover, even prior to the period under review, and continuing to the present, the WB has long offered advisory services on project bonds (for example, Gray et. al., (1997), Dailami [2003]). Interest in this area waned after the financial crisis, but is making a comeback (Bond, Daniel (2014); Bravo, Fernando, (2014) and Garcia-Kilroy [2014]). The G-20 High Level Panel on Infrastructure pointed to the critical need to find new mechanisms for leveraging resources for infrastructure projects (G20 High Level Panel on Infrastructure [2011]). The World Bank Group envisages a scale up of its infrastructure financing activities, as described in its umbrella report on Long-Term Investment Financing for Growth and Development (2013), in the latest infrastructure strategy update FY13-15 (World Bank, 2013), and in its recent establishment of a Global Infrastructure Fund (World Bank, 2014).

5. Project bonds allow borrowers to access a capital markets investor base, attract another pool of liquidity that could complement – and for some projects fully replace – bank funding and, for projects with a long economic life, obtain longer tenors than available in the bank market. Project finance and infrastructure assets, with their long-dated tenors, flexible structures, contractual framework and cash flows, lend themselves well to fixed income investors and in particular 'real money' investors, such as pension funds and insurances with long-term liabilities structures. Fixed income investors are keen to increase their allocations to long-dated assets as they search for returns in the current low interest rate environment. For borrowers, project bonds could help diversify away from the historical reliance on banks as a sole source of funding. The capital markets' deep investor base and wide geographical spread also reduces reliance on investors from one single country. Whereas historically the US dollar Qualified Institutional Investor (the so called section 144a) base was the only market for long dated bonds, Southern European and Asian investors have become much more important in recent years and have shown an increased appetite for longer tenors.

6. Some diminution of interest in project bonds after the financial crisis partly reflected the disappearance of credit enhancements for such bonds, hitherto available from 'monoline' insurers, who provided 'wrapped' finance for project bonds.[44] However, the availability of long-term investment financing from all sources has diminished following the crisis and has not fully recovered due to persistent weakness in the global economy. Meanwhile, commercial banks'

[42] http://live.worldbank.org/infrastructure-investing-for-growth-and-people. These Annual meetings (October 2015) also showcased the recently established $100 million WB Global Infrastructure Facility, set up in April 2015, and pointed towards $1 trillion of unmet demand for infrastructure demand in emerging and developing economies (EMDEs).
[43] Long Term Finance. (2015), World Bank.
[44] See e.g., Yescombe (2011): Public-Private Partnerships: Principles of Policy and Finance.

appetite for lending to project finance transactions is also being adversely impacted by the new regulatory requirements (Basel II&III). As a consequence of these multiple factors, deal volumes in 2012 were at an historic low, despite the closing of large transactions with government support. The number of projects to reach financial close fell 8 percent in 2012, the first annual decline since 2002. Global project finance in 2012 was down 6 percent from 2011.[45]

7. At the present juncture, there is a timely revival of interest in the case for developing bond markets, especially project bonds, for infrastructure finance in emerging markets as new estimates of infrastructure needs are estimated variously at around US$57 trillion to US$70 trillion from 2013 through 2030. Attention is turning to institutional investors (such as pension funds) who may have the potential to step in and finance longer-term infrastructure projects as they hold over US$85 trillion in assets in OECD countries.

8. Mobilizing long term capital market resources becomes an important element of the strategy for funding infrastructure. This mobilization can take place at sovereign, corporate or project levels. While sovereign and corporate debt borrowings from capital markets reflect sovereign or corporate ratings, borrowing at the project level depends upon the stand alone credit quality of the project and the regulatory requirements e.g. investment grade or higher rating, governing potential institutional investors, hence making mobilization substantially more challenging. As equity is generally not constrained by requirements such as ratings but driven by risk/reward considerations it is generally less challenging to mobilize.

[45] G20/McKinsey/World Bank (2013) Long Term Financing for Growth and Development: Umbrella Paper, February.

Appendix 7.2: Infrastructure Portfolio Identification

1. As discussed in the Approach Paper, relevant World Bank infrastructure and capital market interventions were initially identified as all activities with both capital market related sector codes and infrastructure related sector or theme codes, over the period 2004 through 2015. For IFC activities, capital market relevance was determined based on sector classification while infrastructure focus was indicated by an infrastructure flag for advisory services and by infrastructure department codes for investments. These included 6 IFC investment projects that utilized securities instruments (4 bonds and 2 guarantees of bonds to support infrastructure development These interventions were determined to be primarily focused on financing infrastructure. One additional loan and one additional WB AAA were added to the list of the Approach Paper, as they are recent, and were not included in the FY04-14 project list.

2. IEG has not included projects which had a different market segment as their primary focus, even if they included infrastructure finance content, as these are reviewed elsewhere in the report. E.g., IFC also has 26 private equity (PE) funds with some focus on infrastructure; these are combined with the review on PE in chapter 3. Separately, IEG also reviewed projects supported by WB guarantees to identify possible indirect support for the use of capital markets instruments.

Appendix 7.3: – IFC Guarantees and Performance Bonds for Infrastructure: Extracts from Board documents

1. **Guatemala City Project** (Closed, AppFY2006): This project entailed a risk sharing facility with Banco G&T Continental, where both IFC and B&T pool their risk capital to finance the city project. The total financing package for the MTS project and related civil works is Q351 million (US$46.2 equivalent). It comprises two segments: (i) a 10 year syndicated local currency loan in the amount of Q279 million (US$ 36.7 million equivalent), and (ii) a local currency loan from Banco G&T Continental in the amount of Q72 million (US$ 9.5 million). IFC will provide a local currency partial credit enhancement to G&T through a risk sharing facility for 70% of G&T's exposure (US$ 6.7 million equivalent). If the term of a loan exceeds the term of administration in the local municipalities in Guatemala, a positive recommendation has to be obtained from a technical feasibility study prior to incurring the loan. Such recommendation was obtained with respect to the full scope of this project being financed by both the syndicated loan and the G&T loan. Banco G&T Continental is also contributing to the total financing package.

2. **Arabesque Corp Finance** (Active, AppFY2007): IFC's proposed financing in this case consisted of an A Loan of up to EUR 28 million; a B Loan of up to EUR 28 million and an IFC guarantee of up to US$ 10.5 million, guaranteeing the underlying payment obligations related to the purchase of shares in Budmax. With EU accession in January 2007, the Romanian financial market is experiencing increased liquidity. However, the Company's access to alternative financing would only be available at shorter tenors than IFC and without the benefit of grace periods. IFC's presence in this transaction will help increase investor's confidence in these countries business environments where Arabesque has been unable to satisfactorily obtain the needed funds from the local or foreign commercial banks. Additionally, IFC long tenors tailored to meet the cash flow needs of the Project will help further strengthen Arabesque's long term financial position.

3. **Irapuato-Piedad** (Active, AppFY2007): The proposed IFC investment consists of a partial credit guarantee of up to 25% of a local currency loan of up to MX$580 million to be provided by Banco Santander Serfin and a syndicate of banks ("the senior lenders") to finance the Project. IFC's guarantee is equivalent to up to MX$145 million (approximately US$13 million).The project will also be funded through equity in the amount of MX$160.8 million (equivalent to US$14.6 million) contributed by the Sponsor. Since the project is active and the 1st guarantee occurred 2/2007, as such, it is too early to measure an impact on the sector.

4. **Hernic BEE** (Active, AppFY2006) [Guarantee(s) facilitating equity investment/reduce financing cost]: This was IFC's follow on investment "Hernic BEE". The investment was approximately US$4.5 million and consisted of a shareholder loan of US$0.8 million and up to the South African Rand ("ZAR") equivalent of US$3.7 million in loan guarantees. The investment was made to secure the future of IFC's earlier investment in the Company. IFC

would provide a guarantee of up to ZAR23 million to support the financing of the BEE structure. Rand Merchant Bank (RMB) will finance the BEE purchase price of ZAR180 million for 15% of Hernic's shares. The guarantees provided by all shareholders with the exception of the BEE Partners are designed to facilitate and lower the cost of financing to the BEE Partners, thereby enabling them to vest more quickly in their shares.

5. **El Jadida** RADEEJ (Active, AppFY2008): The proposed investment was a risk sharing facility with a consortium of local financial institutions in Morocco for a 15-year dirham-denominated loan to RADEEJ in the amount of MAD 300 million. Under the risk sharing agreement, IFC would cover 50% of the credit risk associated with the loan, up to a maximum exposure of MAD 150 million (equivalent to approximately USD 19 million). Through its participation in the pioneering RADEEJ deal, IFC met its expected additionality in helping to jumpstart the market for financing sub-national water utilities in Morocco. The facility would also allow the local banks to lengthen the maturity of their loans to RADEEJ from a 10-year tenor to a 15-year tenor. No funds were disbursed against the original Risk Sharing Facility amount of US$20 million. Although IFC's contributions to the project are not apparent due to the early cancellation of the facility, one could argue that the groundwork laid by IFC in convening the right participants/stakeholders in the project and facilitating the risk sharing facility improved the understanding of subnational credit risk and interest levels of the local banks in lending to municipalities.

6. **BBVA Lima** and **BBVA Arequipa** (Closed, AppFY2010; and Active, AppFY2011): IFC guarantee will cover up to PEN 90 Million, and will not cover the portion of the loan that will be used for the Bus Scrapping Fund. (No more info) On BBF Arequipa: : IFC guarantee will cover up to PEN 15 Million. Mining transfers flowing to an independently-managed trust with a 3x DSCR. IFC shares security pari passu with BBVA in case the guarantee is called. (No more info

7. **Zain Malawi District** (Closed, FY2010): IFC provided a partial credit guarantee as part of a risk sharing facility of approximately MK2 billion with Standard Bank Malawi Limited which will provide local lending to small and medium enterprises (SMEs) that distributed mobile telephone air time for Zain Malawi Limited ("Zain"). The proposed risk-sharing facility was intended to enable Zain's distributors to access financing from Standard Bank on favorable terms than currently available. The Project aimed to allow Standard Bank to expand its lending to this sector with lower risk of loss. To an extent IFC introduced a "new structured product (RSF) to SBM, the Project was innovative. However, the RSF was defective in the context of the business environment and implementation challenges.

8. **Tegucigalpa** (Closed, FY2011)): The proposed investment is a risk-sharing with a loan to be provided by a syndicate of local banks to the Alcaldía Municipal del Distrito Central (AMDC or the Municipality) of Tegucigalpa for investments in urban transport infrastructure and refinancing of a short term bridge loan. The loan size will be up to Lempiras (HNL) 1 billion (approximately US$53 million), and the risk share would cover up to 50% of the loan, with a maximum exposure of US$15 million.

Appendix 7.4: – Infrastructure Project Bonds- Other IFIs and Country Models

The EIB – A Multilateral Initiative

1. There are ongoing efforts by most of the development institutions to find ways to mobilize resources for development from the capital markets in general and for infrastructure development in particular. Some of these initiatives are discussed below. The Project Bond Initiative of the European Investment Bank is one of the more comprehensive, targeted and advanced efforts to mobilize resources for infrastructure using project bonds and provides a replicable model.

2. The European Project Bond Credit Enhancement (PBCE) facility has been sponsored by the European Union to catalyze increased investment in the European Infrastructure sector. The PBCE is a response to the sharp contraction of available capital to fund infrastructure globally after the financial crisis. Europe has been particularly impacted due to the previous reliance on the commercial bank market as the provider of senior debt to projects and sharply reduced equity funding. The pilot phase for up to 2020 was initiated in 2012. The European Investment Bank (EIB) is the manager of the PBCE.

3. A pilot phase was undertaken to test the project bond concept during the multi-annual financial framework 2007-2013, to feed into design modifications for the next multi-annual financial framework 2014-2020. The test phase was funded by EUR 230 million of EU budgetary resources from unused budget lines for existing programs. This should enable the EIB to provide financing to infrastructure projects worth more than EUR 4 billion across the three sectors. The EIB selects and appraises projects according to its own standards, structures and prices the credit enhancement instrument for the selected project, and carries out the monitoring, although it will not act as a credit controller. Subsequent decision-making for projects will be formulated on a case by case basis by the parties involved. As of end 2014, the EIB Board of Directors had approved nine projects in six different Member States.

4. The first transaction under the Project Bond Credit Enhancement initiative successfully took place in July 2013 in Spain for the Castor underground gas storage project, to provide storage for 30% of Spain's daily gas consumption. Based on a positive interim evaluation in 2013 and subject to the final evaluation of the pilot phase in 2015, the Project Bond Initiative is expected to be fully rolled-out within the Connecting Europe Facility (CEF) forming part of the 2014-2020 Multiannual Financial Framework (MFF).The program is managed by the EIB, builds on its core strength of providing senior debt funding to trans-European infrastructure projects. All three leading corporate rating agencies – Fitch, Moody's and Standard & Poor's supported the proposal.

5. For large projects, where bank loans and bonds are part of the financing package, bondholders can benefit from the role of third-party banks as controlling creditor. They will also benefit from the EIB expertise in due diligence, valuation and pricing methodologies.

Other IFI Initiatives

6. In addition to the EIB program discussed above there have been ongoing efforts by almost all development institutions and governments to substantially increase the use of capital markets particularly for project bonds. In some case these efforts complement the initiatives to develop regional and domestic capital market such as the efforts being undertaken by Asian Development Bank under ABMI to develop the bond markets in Asia. A subset of these initiatives which is particularly relevant for the infrastructure sector is the local currency project bond markets. African Development Bank and Asia Development Bank have carried out an exhaustive review of the potential of bond financing and expect to provide credit enhancements to enable the bonds to reach acceptable credit ratings. And in August 2015 IADB approved a US$200 million partial credit guarantee for a bond issuance for "Constructora Norberto Odebrecht S.A. (CNO) Surety Bond Project". There are also few example of the private sector arms of multilaterals enhancing and/or participating in municipal and project bonds in foreign and local currency but there have been relatively few such transactions.

Latin American Bond Markets – Chile, Brazil, Peru and Mexico

7. Latin America has an active project bond market albeit with divergent results across the continent. Chile is a Latin American leader in terms of having well-developed financial institutions and markets (along with Brazil, Peru, and Mexico). One of the keys to Chilean financial market development, and consequently to the development of the project bond market, was the 1981 reform that established the basis for private pension plans. Private pension funds in Chile have assets equivalent to about 70 percent of GDP, the largest in the region. Infrastructure bonds in Chile account for about one-fifth of all outstanding corporate bonds, with about 90 percent held by pension funds and insurance companies. Chilean infrastructure bonds generally have a credit enhancement in the form of a guarantee by a monoline insurance company or a multilateral agency. The decline of the monoline guarantee business in the wake of the global financial crisis has led to a sharp reduction in the issuance of Chilean infrastructure bonds. PPP concessionaires in Chile also typically benefit from a government minimum revenue guarantee, mitigating the risk that revenues will fall short of projections.

8. In contrast with Chile, the Brazilian project bond market is much smaller. This seems somewhat surprising, given the size and sophistication of its banking and corporate sectors. One contributing factor may be that, unlike other countries in the region, Brazil did not undertake pension reform in the 1980s or 1990s. As a result, Brazilian institutional investors are smaller than their counterparts in other countries in the region.

9. As in Chile, pension funds in Peru have been among the major investors in infrastructure bonds. Additionally, substantial infrastructure investments have been made through private equity funds. A potentially useful model is the Infrastructure Debt Trust Fund, a type of private equity fund established by Peruvian pension fund managers to pool expertise.

Four of these funds undertake due diligence and make the actual investment in the project, while the pension funds and other institutional investors invest in the Debt Trust Fund rather than individual debt or equity securities.

10. Mexican structured products known as certificates of capital development (CCDs) provide a vehicle for investors to indirectly fund infrastructure projects. CCDs are listed on the Mexican stock exchange to provide liquidity and invest directly in one or more projects, or in the securities issued by companies engaged in infrastructure activities. Virtually, all of the outstanding CCDs are held by Mexican pension funds. Conceptually, Mexican CCDs and Peruvian infrastructure debt trust funds offer models that could be replicated in other region.

Appendix 7.5: – Supporting the Environment and Other Priority Sectors: Green Bonds and Theme Bonds

1. In 2008, the WBG adopted a Strategic Framework for Development and Climate Change to increase support to sustainable investments and as a part of this strategy, the IBRD and IFC Treasury Departments began to issue thematic bonds supporting WBG operational work on climate change that came to be known as 'green bonds'.[46] Subsequently IFC began to support other areas of the real sector deemed to be strategic using similar structures; 'Banking on women' bonds and 'Inclusive business' bonds, while the IBRD Treasury assisted the support of bond issues in other areas: 'vaccine' bonds and catastrophic risk (CAT) bonds are examples.[47] As of June 30, 2015, total WBG issuance of thematic bonds amounted to US$12.7 billion, and over 96 percent of these consisted of green bonds. IBRD accounted for 69 percent of total green bond issuance of the WBG. IFC issued the two largest green bonds, of US$1.0 billion each compared to the largest issue of US$600 million by IBRD.

2. The present evaluation does not question the *relevance* of these issues, given that they support WBG strategic priorities; rather it provides a perspective of their *effectiveness* in terms of supporting the increase of sustainable investments, whether for climate change or other priority areas, their additionally, and their sustainability in global debt markets.[48]

3. Demand for green bonds and environmentally friendly investment opportunities increased after 2000, following the Montreal Protocol, and the adoption of the UN Principles for Responsible Investing (PRI).[49] Investors who signed on – mostly buy-and-hold asset managers, pension funds, insurance companies and others - did not have in-house capacity to select environmentally friendly projects and carry out the required due diligence.

29. In response, the European Investment Bank (EIB) was the first multilateral development bank (MDB) to issue a Climate Awareness Bond (CAB), in 2007, introducing a core underlying concept - ring-fencing of proceeds of such bonds to match disbursements of underlying WBG portfolios that contributed to green bond goals: a reduction in carbon emissions. Shortly after, IBRD in in collaboration with a Swedish pension fund investment house, Skandinaviska Enskilda Banken (SEB), issued its first green bond of SK3.25 billion (US$403 million) in November 2008, targeting European investors.[50] This was followed by an issue of US$300 million in green bonds to the State of California, also a first time responsible investor in WB

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[46] World Bank, Development and Climate Change: A Strategic Framework for the World Bank Group, DC 2008-0009, September 30, 2008.

[47] Thematic bonds other than green bonds are discussed in Appendix A6.5.

[48] For an introduction, see http://treasury.worldbank.org/cmd/htm/WorldBankGreenBonds.html.

[49] UN (2006). See e.g., "Principles for Responsible Investment". An investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact. http://www.unpri.org/viewer/?file=wp-content/uploads/PRI_Brochure_2015.pdf

[50] Initially planned for SK 2.35 billion, it was increased to SK 3.25 billion, in response to the demand.

paper. In accordance with the principle of ring fencing, the World Bank agreed to credit the proceeds of the issue to a special account for funding loan disbursements to qualifying green projects in client countries (Appendix 7.5 Box 1). IFC started issuing green bonds in 2010.

30. Green bonds issuance by the WBG has grown rapidly but although the amounts issued by the WBG were relatively large, by 2014 aggregate WBG annual issues were only about 10 percent of total green bond issuance in the global market place, then estimated at around US$40 billion.[51] By early June 2015, IBRD had issued 100 green bonds totaling US$8.4 billion. The combined issuance of the WBG was US$12.2 billion. Other issuers followed suit, worldwide, The EIB remains the largest issuer in this space.

31. WBG green bonds were thus its plain vanilla debt instruments with the green bond label, with disbursements tied to a ringed-in portfolio, sold to socially responsible investors (SRI) who were looking to meet their compliance requirements without taking on screening or additional risks. AAA bonds issued by the WBG with a green bond label facilitated their investment decisions. IBRD green bonds have the same characteristics and risk profile as its standard debt instruments. This is also true for IFC and EIB. There is no cost savings to the World Bank or IFC in issuing these bonds.

32. As of June 2015, IBRD had launched 100 green bonds/ structured notes totaling US$8.4 billion in 18 currencies, and sold to diverse investors. They ranged from large benchmark issues (US$600 million, the largest green bond issued by IBRD to date), to a US$5 million issue. However, the proceeds were always swapped back to US$ as IBRD is a spread borrower and does not take exchange risks in its lending or borrowing operations (Appendix 7.5 Figure 1).

Appendix 7.5 Box 1. WBG Green Bonds and Eligible Project Selection Criteria

How do WBG green bonds work?

As part of their annual funding program, and based upon prevailing market conditions, IBRD and IFC issue a part of their annual bonds under a green bond label. The proceeds raised from such issues are credited to a special account, and matched against loan disbursements of eligible projects. Proceeds are not tied and can be disbursed for existing projects that meet the eligibility criteria as well as new environment-friendly projects. Investors are given prospectuses that identify the underlying eligible projects, and there is a periodic reconciliation of project disbursements against funds raised. Criteria for eligible projects include:

Mitigation

- Solar and wind installations;
- Funding for new Technologies that permit significant reductions in greenhouse gas emissions;
- Rehabilitation of power plants and transmission facilities to reduce greenhouse gas emissions
- Greater efficiency in transportation, including fuel switching and mass transport;

[51] For example, the State of Massachusetts, Ile de France, Export Development Canada have all issued green bonds, and the largest issue was in May 2014, by the French utility GDF Suez, for 2.5 billion euro. See Reichelt and Davies (2015): http://www.worldbank.org/en/news/feature/2014/03/04/growing-green-bonds-market-climate-resilience.

- Waste management (methane emissions) and construction of energy efficient buildings;
- Carbon reduction through reforestation and avoided deforestation.

Adaptation

- Protection against flooding (including reforestation and watershed management)
- Food security improvement and stress-resilient agricultural systems (which slow down deforestation)
- Sustainable forest management and avoided deforestation.

IBRD and IFC green bonds are thus linked to the ongoing and proposed pipeline of projects that provide support against climate change. Their pricing and characteristics do not materially differ from the regular bond issues of these institutions. While issuance of green bonds is thus not linked to an expansion of this part of the WBG portfolio, the bonds attract new investor classes towards the support of WBG bonds, and help to highlight the important work that the WBG undertakes in this area.

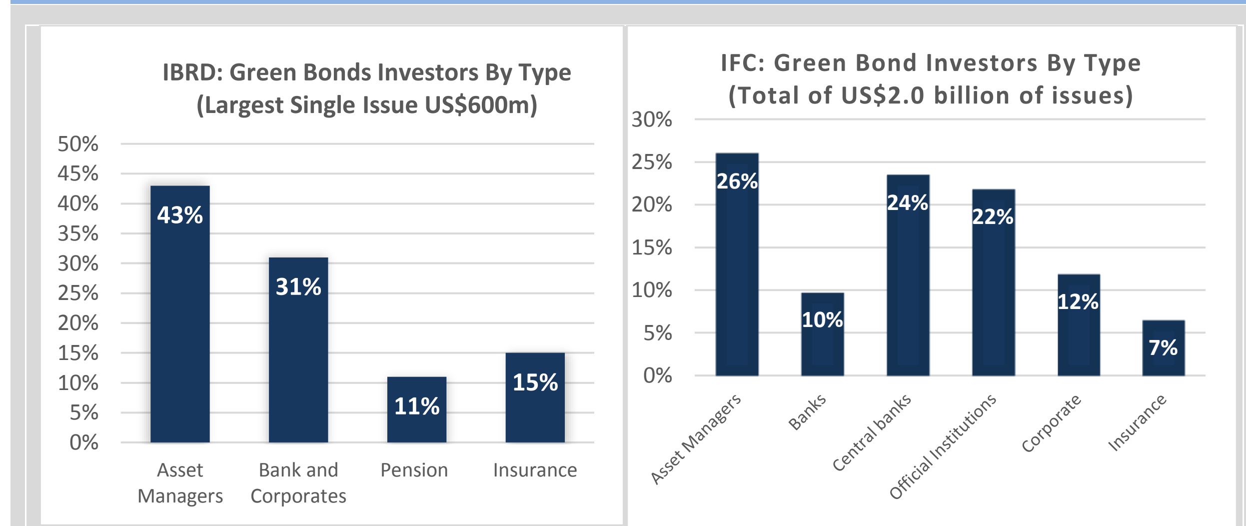
Innovation

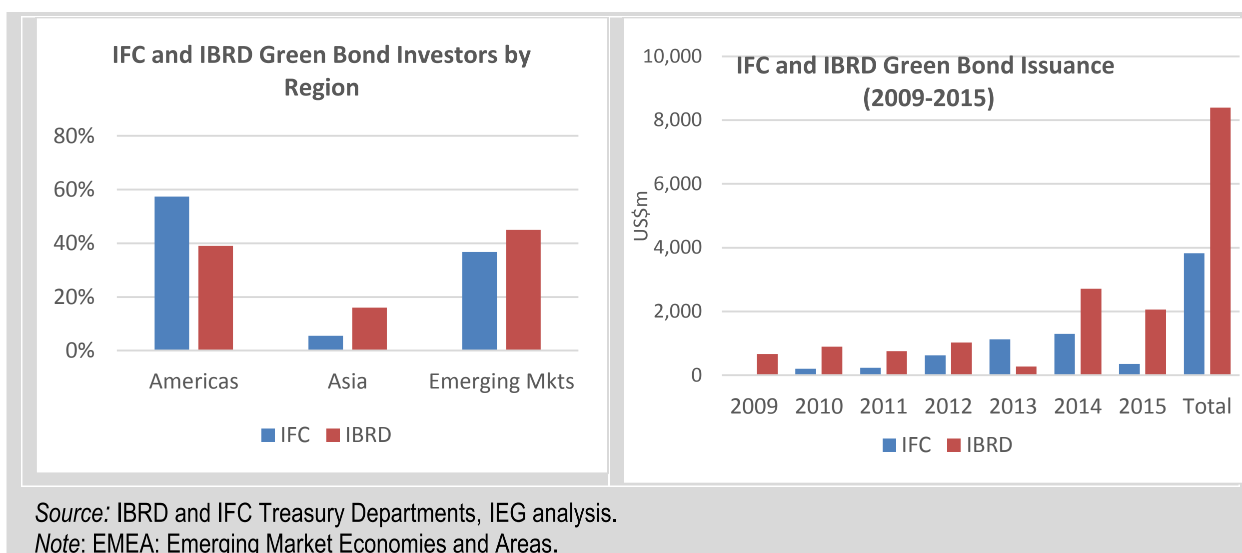
In 2013, IFC issued two large green bonds (benchmark bonds) of US$1.0 billion distributed globally. These IFC benchmark bond issues attracted a large proportion of US pension fund investors. In July 2014 IBRD issued an €50 million 10-year equity index-linked green bond linked to the performance of the Ethical Europe Equity Index, that tracks eligible sustainable companies. This transaction helped expand the investor base to include those in search of a sustainable equity index. And in February 2015 IBRD issued its largest and longest dated global US$ green bond for US$600 million, at a 10-year fixed rate.

Sources: IEG, IBRD and IFC Treasuries.

33. IFC started issuing green bonds in 2010, shortly after IBRD, mostly in non-US$ currencies that carry higher interest, that were attractive especially to Japanese retail investors (Uridashi). Most were plain vanilla with pricing similar to the World Bank. There is limited market differentiation between the two AAA rated organizations.

Appendix 7.5 Figure 1 WBG Real Sector Interventions for the Environment : Green Bond Issues (FY04-14)





Source: IBRD and IFC Treasury Departments, IEG analysis.
Note: EMEA: Emerging Market Economies and Areas.

34. Although there seems to be some duplications between the World Bank and IFC in green bond markets, this is not a real issue given the strong global demand for environmental and social investments. Annual green bond issuance by the WBG is relatively modest compared to the growing size of the market including large issues by the private sector.

WBG Contributions to Green Bond Market Governance Structures - the Green Bond Principles (GBP)

35. Aside from bond issuance, the World Bank Group played a key role in bringing together stakeholders to agree to a general framework for such issues, which has now come to be known as the Green Bond Principles (GBP). The rapid growth in green bond markets necessitated a sound framework that would enable key market participants (issuers, investors, and financial market intermediaries) to operate efficiently and on a transparent basis. At the outset of green bond issuance in 2008 there were no clear rules beyond the generally stated strategic UN objectives. The authors of the principles included major issuers (such as EIB, IBRD, IFC, EDF and Unilever), investment banks (e.g., Citi, JPM, Credit Agricole, HSBC), and investors (e.g., Black Rock, TIAA-CREF, Zurich Insurance). Together they also appointed the International Capital Market Association (ICMA) based in London to be the secretariat.[52]

36. The Green Bond Principles, published in 2015, represent voluntary process guidelines intended for use by market participants.[53] They define green bonds as any type of bond instruments where the proceeds will be exclusively applied to finance or re-finance in part or in full new and/or existing eligible green projects and which follow four principles: promoting progress on environmentally sustainable activities as defined by the issuer (Principle 1); in line with the issuer's project process for evaluation and selection (Principle 2). The management of

[52] www.icmagroup.org.
[53] http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-bonds/green-bond-principles/

green bond proceeds should be traceable within the issuing organization (Principle 3) and issuers should report at least annually on use of proceeds (Principle 4). The GBP identified four different types of green bonds, to date: (i) green use of proceeds bond; (ii) green use of proceeds revenue bond; (iii) green project bond; and (iv) green securitized bond. The WBG green bonds fall into first category. As of March 2015, 82 institutions representing all participants have joined the GBP as members and 41 organizations have received observer status. In addition to playing a lead role in adoption of the GBP, the WBG's activities also contributed to development of green bond markets in several emerging market countries. A recent example is the issuance of a US$500 million green bond by the Export-Import Bank of India in early 2015.[54]

Other Thematic Bonds

37. Although smaller in volume, the Treasury departments of both IBRD and IFC began to undertake bond issues to support other WBG priority areas (detailed in Appendix A6.5). Some were similar to Green bonds, notably, IFC's Banking on Women and Inclusive Business bonds. The former reflects effort followed the G-20 meeting in Seoul (2011), which recommended that concerted efforts should be made to increase access to finance by women-owned SMEs in developing countries. Accordingly IFC set up a series of lines of credit for women, typically those in positions of management and control in SMEs, and IFC's Treasury Department issued two 'Banking on Women' bonds (US$162.5 million in November 2013 and US$105 million in August 2014) targeting retail Japanese investors. Proceeds were set aside in a designated account for investing exclusively in IFC's already established Banking on Women program. IFC's Inclusive Business bond program, launched in October 2014, was similarly structured, with a focus on including people at the bottom of the economic pyramid into a company's value chain. Its two early bond issues, each of approximately US$100 million, are also plain vanilla debt instruments sold to Japanese retail investors and proceeds are similarly segregated in a special account to be disbursed solely to Inclusive Business projects in IFC's portfolio.[55]

Vaccine Bonds: IBRD's role as Treasury Manager

38. Meanwhile the IBRD Treasury had a hands-on advisory and managerial role in assisting the issuance of 'vaccine' bonds by IFFIm, the International Finance Facility for Immunization (IFFIm) as its Treasury manager. IFFIm was established as a charity intended to mobilize resources to support and enhance the immunization and/or vaccine procurement program carried out by the GAVI Alliance (GAVI).[56] The World Bank advises IFFIm on all aspects of the issuance of GAVI's debt instruments as part of the support it extends for Bank-supported trust funds. The pooled assets are maintained separately from the funds of the World Bank Group.

[54] Emerging Markets: Asia Awakes to Green Bonds, February 2015.
[55] The second transaction was in Mexican Peso (MXN 1.5 billion) with a maturity of 5 years. IFC swapped the proceeds back into US$. IFC had also undertaken two additional small transactions, as of June 2015.
[56] http://www.gavi.org/

The World Bank offers these services for direct cost recovery and without seeking any management fee. IFFIm's issuances are based on its own credit.

39. The World Bank, as Treasury Manager for IFFIm, has played a key role in helping IFFIm to accessing capital markets, at a cost competitive with GAVI's donors' funding costs. IFFIm has issued some 25 bonds in a range of currencies and maturities and in late 2014, IFFIm issued a US$500 million inaugural *sukuk*. The World Bank played a key role in structuring this landmark issue, now used as a template for other issuers although the World Bank was not the obligor of the bond. In all, IFFIm has enabled GAVI to nearly double its spending on immunization programs, saving an estimated US$21 billion in health costs, vaccinating more than 325 million children and help saving more than 5.5 million lives since its creation in 2000.

40. Sukuks are financial certificates that comply with Islamic law and are also known as Islamic bonds. Sukuks are structured in such a way as to generate returns to investors without infringing Islamic law. Sukuk represents an undivided shares in the ownership of tangible assets relating to particular projects or special investment activity. A sukuk investor has a common share in the ownership of the assets linked to the investment although this does not represent a debt owed to the issuer of the bond.

41. This sukuk has a maturity of 3 years and carries a quarterly coupon of 15 basis points over 3-month USD LIBOR. This rate was higher than the IBRD's borrowing cost because IFFIm is the obligor. The issue was lead-managed by a group of five banks representing many of the major jurisdictions for Islamic finance – Barwa Bank of Qatar, CIMB of Malaysia, the National Bank of Abu Dhabi, NCB Capital of Saudi Arabia and Standard Chartered Bank. IFFIm was able to diversify its investor base, with 85 percent of the order book coming from new and primarily Islamic investors in the Middle East and Asia. In the past, IFFIm's investor base had been largely concentrated in Japan, the United States, Europe and Australia.

Catastrophe Bonds (CAT Bonds)

42. An interesting financial instrument available through the World Bank is catastrophe bond (CAT). Catastrophe bonds allow entities that are exposed to natural-disaster risk, such as insurance companies, to transfer a portion of that risk to bond investors. Although several member countries are interested in diversifying risks from climate change through the catastrophe-bond market, their ability to access this market has been limited. This due to several factors including: a lack of familiarity among many government officials with re-insurance in general and the catastrophe bond market in particular; limited or non-existent modelling of the natural-disaster risk exposure of many countries; potential political risks of purchasing insurance protection when the pay-out is uncertain; and discomfort of many government

officials with the complex legal documentation and relatively high transaction costs associated with these kinds of transactions.[57]

43. In a typical catastrophe-bond structure, the entity exposed to the risk (the sponsor of the bond) enters into an insurance contract with a special purpose vehicle (SPV) that issues the bonds to investors. The SPV invests the proceeds of the bond issuance in highly rated securities that are held in a collateral trust, and it transfers the return on this collateral, together with the insurance premiums received from the sponsor, to the investors as periodic coupons on the bonds. If a specified natural disaster occurs during the term of the bond, some or all of the assets held as collateral are liquidated and that money is paid to the sponsor as a pay-out under its insurance contract with the SPV. If no specified event occurs, the collateral assets are liquidated on the maturity date of the bonds and the money is paid to the investors. In other words, investors risk losing some, or all, of their principal if a natural disaster occurs and in exchange receive a coupon that reflects the insurance premium for such risk Catastrophe bonds benefit sponsors by allowing them to access a bigger pool of capital and in general longer coverage periods than conventional re-insurance. The attraction of these bonds to the investors is the relatively high returns and the low level of correlation with other asset classes, such as equities and conventional bonds (IBRD, 2015).

44. In 2009, IBRD created a MultiCat Program which the Bank acted as arranger, allowing clients to sponsor catastrophe bonds using a common documentation platform that makes issuance more efficient, in terms of both time and cost, than doing a stand-alone transaction. Under the program, the client sponsoring the transaction established an SPV to act as issuer of the bonds and then enters into an insurance contract or other risk-transfer arrangement with the SPV. The Government of Mexico chose to use this program to sponsor catastrophe bonds covering both earthquake and hurricane risk in 2009 and then again in 2012. The Bank has no credit exposure under this program.

45. To facilitate the use of CAT bonds by its member countries, IBRD in 2014 created the Capital-at-Risk-Note Program which eliminates the need for an SPV or for the collateral arrangements that are required in a conventional catastrophe-bond structure. Instead, IBRD issues the bond supported by the strength of its own balance sheet and hedges itself through a swap or similar contract with a client. This simplify structures enables IBRD to transfer risks from its clients to the capital markets in an efficient way with minimal transaction costs.

46. Up to August 2015, there has been only one transaction under the new program. In June 2014, IBRD issued its first CAT bond under the Capital-at-risk Notes Program. The transaction was a three-year issue linked to hurricane and earthquake risk in 16 Caribbean countries.[58] To hedge its obligations under the bond, the World Bank entered into a catastrophe swap with the

[57] Michael Bennett, Greening the Global Economy, IBRD, 2015
[58] IBRD press release dated June 30, 2014

Caribbean Catastrophe Risk Insurance Facility (CCRIF)[59] that mirrors the economic terms of the bonds. If the bond is triggered by a referenced natural disaster of sufficient intensity, the principal amount of the bond will be reduced and an equivalent amount will be paid to CCRIF under the swap agreement. A summary of the transaction is given in Appendix 7.5 Table 1. The return to investors in this bond is 6 month LIBOR plus 6.3% with a floor of 6.5% which is substantially higher than regular IBRD bonds. However, the cost is borne by CCRIF through the swap agreement.

Appendix 7.5 Table 1 IBRD Catastrophic Risk Bond – Transaction Summary

Issuer	World Bank (IBRD)
Nominal Amount	USD 30,000,000
Redemption Amount	The nominal amount reduced by all principal reductions as a result of applicable Caribbean tropical cyclone or earthquake events (as defined in the terms of the notes)
Settlement Date	June 30, 2014
Coupon	6 month Libor + 6.30%, floored at 6.5%
Coupon Payment Dates	Quarterly
Maturity Date	June 7, 2017

Green Bonds and Theme Bonds: A Summary

47. WBG thematic bonds, mostly green bonds, mobilized nearly ($12.7 billion) over 2010-2015, reflecting its portfolio of projects for climate change mitigation. These programs attracted new investors and diversified the WBG funding base. Now new green bond issuers have entered this market and the share of the WBG has declined to less than ten percent. However, it has played an important catalytic role for the development of the Green Bond principles. Other IFC theme bonds had identical structures, serving to showcase the role of IFC in these areas, but not increasing funding, or helping to monitor performance. IBRD also played an important role through its catastrophic risk bond; a very creative structure for insurance against natural disaster, as well as through its Treasury management services for GAVI's 'vaccine bonds' including the innovative sukuk. Thematic bonds, if undertaken on a large scale, could lead to a perception of fragmentation of WBG debt on issue.

48. While WBG's theme bonds did not actually increase the volume of its loans and investments for the specified areas, they ring-fenced suitable on-going and new investments

[59] CCRIF is a risk-pooling facility that is designed to limit the financial impact on its sixteen Caribbean member governments resulting from catastrophic earthquakes and hurricanes by quickly providing financial liquidity when a policy is triggered. CCRIF was set up under the technical leadership of IBRD and with a grant from the Government of Japan. It was capitalized through contributions from a multi-donor Trust Fund by the Government of Canada, the European Union, IBRD, the governments of the UK and France, the Caribbean Development Bank and the governments of Ireland and Bermuda, as well as through membership fees paid by participating governments.

and helped to showcase the substantial portfolio of WBG work in this area., Bonds were issued as a part of overall borrowing needs, with negligible differences in terms of pricing or structure. Since the annual borrowing requirements of the IBRD and IFC are determined on an aggregate basis, and green bond issues are within this envelope, there is no obvious additionality in funding obtained. The WBG was not the first IFI to issue green bonds, and has not been the largest. In fact, it now accounts for only a tenth or so of the global green bond market. Nevertheless it is an important issuer and it has been a steady presence in this market, and has also produced some innovative structures, such as the IBRD equity index- linked issue.

49. Additionally, these structures have certainly helped create a stable pool of investors, including new institutional, retail, and buy-and-hold investors, who benefit from WBG's experience in project selection criteria and rigorous evaluation, especially as they frequently are not equipped with this capacity. From the perspective of the WBG as issuer, this helps to broaden the investor base and reduce funding risk.

50. WBG's greatest contribution with regard to Green Bonds lay in fostering development of this new segment of debt capital markets. Its role in the formulation and eventual adoption of the Green Bond Principles has been widely acknowledged and appreciated. Once again this represents the leverage of the WBG convening power to shape global markets, even with a relatively limited volume of project level interventions.

51. Finally, WBG has played an important role through Treasury Management services and design support, for bond issuance, as has been demonstrated by the role of IBRD in its support for 'vaccine bonds' including the innovative sukuk. Its catastrophic risk bond also demonstrated a very creative structure for insurance against natural disaster. WBG contributions through such structures and support have been at least as important for certain real sector activities as its own thematic bond issuance.

Chapter 7 Appendix Tables A7.1 to A7.5

Appendix Table A7.1 IEG Identified WB Infrastructure Lending Projects with Capital Market Content

	Project Name	Status	IEG Rating	PAD Date
1	Kenya Infrastructure Finance/PPP Project	Active	NA	10/02/2012
2	Multi Country -3A-WAEMU Capital Markets Dev FIL (FY04)	Closed	Moderate	01/28/2004
3	India - IIFCL - India Infrastructure Finance Co Ltd	Active	NA	08/27/2009
4	India - IIFCL – Capacity Building	Closed	N/A	03/16/2010
5	Romania - Programmatic DPL 1	Active	NA	04/29/2014
6	Thailand - Strategy and Implementation for Compt. Finance	Closed	NA	09/23/2003
7	Peru - Lima Metro Line 2 Project	Active	NA	07/20/2015

Source: IEG.
Note: These represent loans identified in the Approach Paper, and add one additional recent project – Peru Lima Metro Line.

Appendix Table A7.2: IEG Identified WB AAA on Infrastructure Finance: Thematic Content

Theme	Project No.	Region /Country
Policy and Regulation (5)	P147471 P132968 P146626 P149083 P132213	Nepal Turkey Turkey Global (2015 report on Long-term Finance) Costa Rica
Market development (9)	P148214 P149561 P151408 P144841 P130754 P115016 P117387 P144584 P149155	Southern Caucasus Colombia Colombia EAP Indonesia Kenya Uruguay Global Global
Infrastructure Funds /Financing vehicles country specific & sub-regional (3)	P112540 P116898 P070074	COMESA - Africa Mano River Union-Africa Vietnam (for municipal finance)
Public Private Partnerships (11)	P144218 P144416 P126385 P133509 P150610 P150913 P148371 P114097 P128686 P109142 P114160	West Africa Africa East Africa India India India Kenya Mexico Uruguay Vietnam Vietnam

Urban and Housing finance (10)	P102862 P114599 P119977 P145700 P072288 P131251 P148205 P126733 P126824 P144507	China China China Indonesia Philippines Philippines Turkey Global Global Kenya
Other/Miscellaneous (3)	P130848 P125907 P150056	Mexico(DRM) Peru (utility rating) Zambia (water utility finance)

Source: IEG

Appendix Table A7.3: WB Guarantees for Infrastructure Projects[60] FY04-FY14

Project ID	Project Name	Instrument Type	Sector	Guarantee Type	Country	Board Approval	Status	Guarantee Sta
P076445	Lao Nam Theun 2 Power Project	Commercial Loan	Energy	Partial Risk (IDA)	Laos	3/31/05	Active	Effective
P082308	MZ-Southern Africa Regional Gas Project	Commercial Loan	Energy	Enclave Partial Risk (	Mozambique	11/20/03	Active	Effective
P082502	3A-West African Gas Pipeline (IDA S/UP)	Commercial Loan -LC structure	Energy	Partial Risk (IDA)	Ghana,Togo,Benin,Nigeria	11/23/04	Active	Effective
P086903	SL Completion of Bumbuna Hydroelectric project - IDA Guarantee	Commercial Loan	Energy	Partial Risk (IDA)	Sierra Leone	6/16/05	Active	cancelled
P088923	PE (CRL) Guarantee Facility	Commercial loan etc.	Various	Partial Risk (Gtee. Fa	Peru	4/28/05	cancelled	cancelled
P089568	Banat & Dobrogea Electricity Distribution Privatization	Commercial Loan -LC structure	Energy	Partial Risk (IBRD)	Romania	12/21/04	Closed	Expired
P089659	UG - Private Power Generation (Bujagali) Project	Commercial Loan	Energy	Partial Risk (IDA)	Uganda	4/26/07	Active	Effective
P093202	SN-Elec Sec Efficiency Enhance GU (FY05)	Commercial Loan	Energy	Partial Risk (IDA)	Senegal	5/17/05	Active	To be cancelle
P094306	JO - Amman East Power Plant	Commercial Loan	Energy	Partial Risk (IBRD)	Jordan	3/13/07	Active	Effective
P098770	East Africa Trade and Transport Facilitation Project	Commercial Loan -LC structure	Transportation	Partial Risk (IDA)	Kenya; Uganda	1/24/06	Active	Effective
P107940	MR - Gas to Power Project	Commercilal Loan	Energy	IBRD or IDA Enclave	Mauritania	5/20/14	Active	To be effective
P110177	Cameroon - Kribi Gas Power Project	Commercial Loan	Energy	Partial Risk (IDA)	Cameroon	11/10/11	Active	Effective
P112242	Privatization of the Power Distribution System Operator (OSSH)	Commercial Loan -LC structure	Energy	Partial Risk (IBRD)	Albania	5/5/09	Active	Effective
P114277	Nigeria Electricity and Gas Improvement Project (NEGIP)	Commercial Loan -LC structure	Energy	Partial Risk (IDA)	Nigeria	6/16/09	Active	To be effective
P116784	Morupule B Generation and Transmission Project	Commercial Loan	Energy	Partial Credit (IBRD)	Botswana	10/29/09	Active	Effective
P120207	Nigeria Power Sector Guarantees Project- Azura	Commercial Loan -LC structure	Energy	Partial Risk (IBRD)	Nigeria	5/1/14	Active	To be effective
P120207	Nigeria Power Sector Guarantees Project Exxon Mobil	Commercial Loan -LC structure	Energy	Partial Risk (IBRD)	Nigeria	5/1/14	Active	To be effective
P121507	Dasu Hydropower Stage I Project	Commercial Loan	Energy	Partial Risk (IDA)	Pakistan	5/29/14	Active	To be effective
P122671	Kenya Private Sector Power Generation Support Project Gulf Power Ltd.	Commercial Loan -LC structure	Energy	Partial Risk (IDA)	Kenya	2/28/12	Active	Effective
P122671	Kenya Private Sector Power Generation Support Project Orpower 4, Inc.	Commercial Loan -LC structure	Energy	Partial Risk (IDA)	Kenya	2/28/12	Active	Effective
P122671	Kenya Private Sector Power Generation Support Project Thika Power Ltd.	Commercial Loan -LC structure	Energy	Partial Risk (IDA)	Kenya	2/28/12	Active	Effective
P122671	Kenya Private Sector Power Generation Support Project Triumph Power Ltd	Commercial Loan -LC structure	Energy	Partial Risk (IDA)	Kenya	2/28/12	Active	To be effective
P126190	Nigeria Electricity and Gas Improvement Project Additional Financing	Commercial Loan -LC structure	Energy	Partial Risk (IDA)	Nigeria	6/19/12	Active	To be effective
P133318	IDA Guarantee for Renewable Energy Development Program	Commercial Loan -LC structure	Energy	Partial Risk (IDA)	Uganda	3/18/14	Active	To be effective
P143605	Taiba Ndiaye Independent Power Producer Project	Commercial Loan -LC structure	Energy	Partial Risk (IDA)	Senegal	12/19/13	Active	To be effective
P144030	CI - 27 Gas Field Expansion	Commercial Loan -LC structure	Energy	Partial Risk (IDA)	Cote d'Ivoire	6/18/13	Active	Effective
P145482	Accelerating Sustainable Private Investment in Renewable Energy Project	Commercial Loan -LC structure	Energy	Partial Risk (IDA)	Maldives	6/26/14	Active	To be effective
P145657	MR - Gas To Power Project (Senegal PRG)	Commercial Loan -LC structure	Energy	Partial Risk (IDA)	Senegal	5/20/14	Active	To be effective
P145664	Banda Gas to Power Guarantee	Comercial Loan	Energy	Partial Risk (IDA)	Mali	5/20/14	Active	To be effective

[60] Under the Guarantee Policy approved in 2014, the nomenclature Partial Risk Guarantees and Partial Credit Guarantees has been discontinued . Guarantees henceforth will be categorized as –Loan Guarantees and Payment Guarantees. This is expected to provide greater flexibility in developing appropriate guarantee structure to support infrastructure projects.

Appendix Table A7.4: Portfolio of WB Guarantees for Infrastructure Financing

Characteristics of WB Guarantee Projects: FY94 to FY2015								
	All Projects: Approval FYs				Infrastructure Projects: Approval FYs (Energy and Transport)			
	FY94 to FY03	FY04 to FY08	FY09 to FY15	FY04 to FY15	FY94 to FY03	FY04 to FY08	FY09 to FY15	FY04 to FY15
Guarantee Type								
Enclave Partial Risk	1	0	1	**1**	0	1	1	**2**
IDA credit	1	0	0	**0**	0	0	0	**0**
Partial Credit	8	0	2	**2**	0	0	1	**1**
Partial Risk	9	10	17	**27**	13	9	17	**26**
Policy Based	2	0	4	**4**	0	0	0	**0**
TOTAL	**21**	**10**	**24**	**34**	**13**	**10**	**19**	**29**
Instrument Type								
Bond issue	7	0	0	**0**	4	0	0	**0**
Commercial Loan	13	5	8	**13**	9	5	3	**8**
Commercial Loan -LC structure	1	3	14	**17**	0	3	14	**17**
No Information	0	2	2	**4**	0	2	2	**4**
TOTAL	**21**	**10**	**24**	**34**	**13**	**10**	**19**	**29**
Guarantee Status								
Cancelled	3	3	0	**3**	1	2	0	**2**
Effective	3	5	11	**16**	2	6	7	**13**
Expired	13	1	0	**1**	9	1		**1**
Prepaid	2	0	0	**0**	1			**0**
To be cancelled	0	1	0	**1**		1	12	**13**
To be effective	0	0	13	**13**				**0**
TOTAL	**21**	**10**	**24**	**34**	13	**10**	**19**	**29**
Project Status								
Active	4	7	24	**31**	3	8	19	**27**
Cancelled	1	1	0	**1**				**0**
Closed	14	0	0	**0**	9	1		**1**
No Information	2	2	0	**2**	1	1		**1**
TOTAL	**21**	**10**	**24**	**34**	**13**	**10**	**19**	**29**
Area of Activity								
Infrastr: Energy/Mining nes	14	7	19	**26**	13	8	19	**27**
Infrastr: Transportation	0	2	0	**2**	0	2	0	**2**
Agriculture, Fishing & Forestry	1	0	0	**0**				
Finance	2	1	3	**4**				
Health and other social services	0	0	1	**1**				
Industry & Trade	1	0	0	**0**				
Information and Communications	1	0	0	**0**				
Public Administration, Law & Justice	2	0	1	**1**				
TOTAL	**21**	**10**	**24**	**34**	**13**	**10**	**19**	**29**
IBRD/ IDA commitment amt	**2518.2**	**698.9**	**3612.7**	6829.7	**1503.9**	**658.9**	**2450.7**	**3109.6**

Source: IEG analysis

Appendix Table A7.5 IFC Bond Guarantees – Project Level Summary Table

Type of instrument	Projects (name, country, year)	Evidence of Additionality		
		New project bond issues, extended bond maturities, reduced coupons	New lenders, syndicated loans	Additional equity investment
Bond purchases	**4** (Peru LNG, Peru, 2008) (BR Further Inv, Russian Federation, 2013) (Renaissance MCB, MENA, 2013) (Mersin Port, Turkey, 2014)	Yes, debut Eurobond issue for BR Further Inv. Mandatory convertible bonds in Renaissance MCB. Eurobond in Turkey.	No	Equity investment in Peru LNG and Quasi-equity in Renaissance MCB
Bond guarantees	**2** (CoJ Financing. South Africa, 2004) (Chuvash Republic, Russian Federation, 2006)	Yes, PCG enabled longer term 2006 Bond in CoJ (12 years). Also extended maturity debt in Chuvash.	No	No
Performance bonds	**3** (GCP, Guatemala, 2006) (Arabsq Corp Fin, Romania, 2007) (Odebrecht Surety, Brazil, 2012)	Yes, extended maturity in Romania.	Yes, syndicated loan being prepared by local bank for Guatemala.	
Loan Guarantees	**9** (Veolia MENA, MENA, 2006) (Irapuato-Piedad, Mexico, 2007) (Buffalo City, South Africa, 2006) (Hernic BEE, South Africa, 2006) (El Jadida RADEEJ, Morocco, 2008) (BBVA Lima, Peru, 2010) (BBVA Arequipa, Peru, 2011) (Zain Malawi Dist, Malawi, 2010) (Tegucigalpa, Honduras, 2011)	Yes, extended loan maturity in Mexico (14 years), Morocco, Honduras, and reduced spread in Hernic BEE, South Africa.	New lenders in Morocco, Malawi, Mexico, and Honduras (expected syndicated loan of around US$ 53 million in Honduras).	Equity investment by already existing investors in Mexico and South Africa (Hernic BEE).

Source: IEG

Appendix Table A7.6 WB, IFC and MIGA: Guarantees by Sector and Instrument (Numbers of projects)

	World Bank					IFC							MIGA						
	FY04-FY08		FY09-FY14			FY04-FY08			FY09-FY14				FY04-FY08			FY09-FY14			
Sector 1	**Nos of Gts.**	**Bond Gts.**	**Nos of Gts.**	**Bond Gts.**	**Total**	**Nos of Gts.**	**Bond Gts.**	**ABS Gts.**	**Nos of Gts.**	**Bond Gts.**	**ABS Gts.**	**Total**	**Nos of Gts.**	**Bond Gts.**	**ABS Gts.**	**Nos**	**Bond Gt**	**ABS/ other Gts.**	**Total**
Energy and Mining	8		19		**27**				1			**1**	28			26			**54**
Transportation	2				**2**	1			4			**5**	3	1		12			**16**
Water						3	2					**5**	8			6			**14**
Telecommunications									1			**1**	10			5			**15**
Total Infrastructure	**10**		**19**		29	**4**	**2**		**6**			**12**	49	1		52		1	**103**
Other Real Sectors			2		**2**	14	3		4	2		**23**	53			81			**134**
Financial Sectors	1		3		**4**	12	3	3	25	1	1	**45**	54		4	64	1		**123**
Grand Total	**11**		**24**		**35**	**30**	**8**	**3**	**35**	**3**	**1**	**80**	156	1	4	197	1	1	**360**

WB: No guarantees of securities during the evaluation period. Of the 7 guarantees of bonds from FY94 to FY03, 5 were for infrastructure.

IFC: bond guarantees in the earlier period included two in Russia, one regional project in Africa, Colombia, Kenya, Mexico, South Africa, and Tanzania while ABS were in Brazil, Colombia, and Mexico. In the later period, the bond guarantees were in Algeria, Indonesia, and Mexico while the ABS was in Brazil.

MIGA's bond guarantee in the earlier period was in Dominican Republic while ABS included two in Kazakhstan and once each in Brazil and Latvia. In the later period, the bond guarantee was in Hungary while the derivative was a currency swap in Senegal rather than ABS.

Appendixes to Chapter 8

Chapter 8 Appendix Tables A8.1 to A8.3

Appendix Table A8.1: The Efficient Securities Markets Institutional Development Program and WBG Capital Markets Development Work (FY07-FY15)

Part A: Contributions to ESMID from SECO and SIDA (US$)

FY:	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
SIDA			2,727,955	2,986,412						1,356,867	745,628	7,816,862
SECO							754,973	445,000				1,199,973

Part B: ESMID Distributions by Project and Funding Sources (US$)

					EXPENSES INCEPTION TO DATE								
Proj ID	Proj Name	Country	Executor	Approval FY	BB (WB)	BB (IFC)	TF092403 (IFC FMTAAS)	TF058142 (IFC FMTAAS)	TF057239 (SIDA TF)	TF016468 (SIDA TF)	TF097245 (SECO TF)	TF098321 (SECO)	Total
P121995	GCMSM Support to ESMID	Africa	WB AAA	2010	26,689	-	-	-	-	-	-	-	26,689
P124057	GCMSM: Support to ESMID in Africa	Africa	WB AAA	2011	41,756	-	-	-	-	-	-	-	41,756
P129763	FCMSM Support to ESMID in Africa II	Africa	WB AAA	2012	31,584	-	-	-	-	-	-	-	31,584
P143456	ESMID support in Africa FY13	Africa	WB AAA	2013	19,942	-	-	-	-	-	-	-	19,942
P149828	FY14 Non-Govt Bond Markets in AFR Reg.	Africa	WB AAA	2014	150,902	-	-	-	-	-	-	-	150,902
545164	Efficient Securities Markets Institutional Development (ESMID) - East Africa	Eastern Africa	IFC AS	2006	-	82,558	-	-	5,450,884	-	-	-	5,533,443
600053	*ESMID* East Africa II - Bond Market Development	Eastern Africa	IFC AS	2014	-	(8,982)	-	-	-	677,523	-	-	668,541
562707	ESMID Efficient Securities Markets Institutional Development (ESMID) - Nigeria	Nigeria	IFC AS	2009	-	65,699	-	-	961,392	-	-	-	1,027,091
578507	(ESMID) Peru and Colombia Non-Government Bond Market Development Program (ESMID) Peru and Colombia	Latin America	IFC AS	2011	-	2,052	12,418	-	-	-	309,996	849,501	1,173,967
P125844	GCMSM Support to ESMID in Latin America	Latin America	WB AAA	2011	34,127	-	-	-	-	-	-	-	34,127
P129766	FCMSM Spport to ESMID in Latin America2	Latin America	WB AAA	2012	81,355	-	-	-	-	-	-	-	81,355
P143049	FY13 ESMID support in MILA	Latin America	WB AAA	2013	6,705	-	-	-	-	-	-	-	6,705
P149833	FY14 Non-Govt Bond Markets in LAC Reg.	Latin America	WB AAA	2014	65,872	-	-	-	-	-	-	-	65,872
599872	Non-government bond markets	World	IFC AS	2013	-	-	-	221,641	-	-	-	-	221,641
	Total				458,932	141,327	12,418	221,641	6,412,277	677,523	309,996	849,501	9,083,614
	Total SECO and SIDA- distribution									7,089,800		1,159,497	8,249,297
	Total SECO and SIDA- contribution									7,816,862		1,199,973	9,016,835
	Residue									727,062		40,476	767,538

Source: WBG

Appendix Table A8.2 Trust Funds and the Capital Markets Work Program –References to FIRST in Five Country Case Studies (IEG FY15)

Country	FIRST Reference
Colombia	The availability of funding from bilateral and multilateral donors through facilities like FIRST, and bilateral donors like the Swiss Government through SECO became critical partnerships to ensure delivery of a significant portion of the advisory work that the WBG and in particular IBRD did. Had that targeted funding not been available there are questions as to whether the Government would have relied so heavily on the Bank to carry out several of the recommendations of the FSAP work. For FIRST, several proposals were approved, e.g. on Self-Regulatory Capital market institutions, Pensions, and Corporate Governance. Implementation of those programs followed suit.
India	None found
Kenya	According to the FIRST website, IMF has operated a project (#10212) entitled "Strengthening the Supervisory and Enforcement Capacity of the Capital Markets Authority of Kenya" funded by FIRST. It was approved on 1/9/1/2011 … FIRST and IOSCO provided assistance to the regional support program: helping the five countries sign the MOU and assisting the regional IOSCO principles assessment
Morocco	FIRST programs responded to issues raised by FSAPs, particularly the 2008 FSAP. GEMLOC also followed the FSAP of 2008. FIRST and GEMLOC fed into the DPL of 2014. FIRST formulated the changes, which were then integrated into the subsequent DPLs… The advisory work provided through FIRST led to the design and implementation of the DPLs. These two sets of activities were well coordinated and built on each other… One part of the 2011 FIRST project is the design of a money market reference rate (Moroccan LIBOR). Our interview with the pension regulator confirmed …..the work being done to transform the system, as included in the 2014 DPL, which itself follows related work in the FIRST advisory work. Two FIRST projects and the following DPL are focused on the primary markets for government bonds, with effort placed on inducing the government to adopt an issuance program aimed at promoting their securities as benchmarks. This included issuance plans and reducing the number/types of instruments; design of a secondary market architecture; review of primary dealer scheme; design of a money market reference rate (Moroccan LIBOR). The DPL has…a set of conditions related to the ideas put forth in the FIRST projects, as well as a condition to establish an electronic auction system for government bonds… While there are no direct references in the DPL to the FIRST projects, it is clear from the design and from discussions with staff that the two are directly linked. FIRST was first and set the stage and then the conditions on the DPL followed what FIRST proposed The implementation of an electronic quotation system (Bloomberg, a component of the 2014 DPL that follows work done through the FIRST program) is in process. Prices are now quoted on that system, but its impact remains limited.
Vietnam	Of the 18 projects contained in the (Vietnam capital markets) inventory …(some) are listed as funded by FIRST …including the VN-Accelerating Capital Markets project (TF053399). FIRST also supported the third project, still underway today, the Vietnam Bond Markets Development project (150688). It can be fairly viewed as the follow on to 561026. Budget is $488,879 funded entirely by FIRST. Approval was December 2014; the project is scheduled to last one year. The main counterpart role has shifted to the MoF, as the focus is now more on the government bond market. Despite the fact that the CAS/CPSs omitted insurance and pension reform, the program did include one intervention related to insurance. This was Project # 106408 entitled "International Standards for Supervising Insurance Sector" (WB AAA). The commencement date was June 2007 and completion in December 2008. Its total budget was $248,917 funded entirely by FIRST.

Source: IEG Country Case Studies

Appendix Table A8.3 Bond Markets Relevant Advisory Services - Summary of Information Available

Source of Funding	WB AAA (79 Overall)	BB (24)	GEMLOC (32)	FIRST (6)	SECO/SIDA (12)	Others (5)	IFC AS (9 Overall)	SECO/SIDA (5)	Others (4)
Total Interventions	79	24	32	6	12	5	9	5	4
Desired Core Documents									
Concept note / pkg	52	12	16	4	9	2	9	5	4
	(18 Pkgs)	(3Pkgs)	(6 Pkgs)	(3 Pkgs)	(4 Pkgs)	(2 Pkgs)			
Concept note review/minutes	33	7	12	3	5	3	3	2	1
BTORs	28	9	7	2	4	4	2	2	0
	(12 Aide Memoires)	(2 Aide Memoires)	(5 Aide Memoires)	(2 Aide Memoires)	(2 Aide Memoires)	(1 Aide Memoire)			
Consultant/General TORs	11	5	3	0	0	3	0	0	0
Reports / Core Output	44	12	16	3	4	4	5	2	3
Presentations / suppl. outputs	28	6	10	0	6	1	5	2	3
Minutes / peer review of outputs	22	8	10	1	2	0	1	1	0
Proj. Completion Summary	30	5	10	2	4	3	6	3	3
	(10 Pkgs)		(3 Pkgs)	(1 Pkg)	(4 Pkg)	(2 Pkgs)			
Dissemination Docs	0	0	0	0	0	0	0	0	0
Other documents (Nos of proj)									
Mission Documents	3	0	0	2	0	1	0	0	0
Internal memoranda,	47	9	19	5	6	3	5	1	4
Correspondence client/stakeholders	18	4	2	3	3	1	5	4	1
Procurement docs	21	6	3	3	3	3	3	2	1
Disbursement and payment docs	5	0	0	2	2	1	0	0	0
Reqd core docs	711	216	288	54	108	45	81	45	36
Total core docs	248	64	84	15	34	20	31	17	14
Available docs % total desired	34.9	29.6	29.2	27.8	31.5	44.4	38.3	37.8	38.9

Appendix Table A8.4 Other Areas of Capital Markets Relevant Advisory - Information Available

Capital Markets Area	Insurance (30)			Pensions (32)	Housing (56)		
Total Numbers of Interventions (Nos)	WB AAA (24)	FIRST (4)	IFC AS (6)	WB AAA	WB AAA (32)	FIRST (3)	IFC AS (24)
Desired Core Documents							
Concept note / pkg / PDS Approval	24	4	6	32	32	3	24
	17	2	5	18	24	2	24
	(4 Pkgs)	(1 Pkg)		(5 Pkgs)	(8 Pkgs)	(1 Pkg)	
	(3 Project Proposals)	(1 Project Proposal)			(1 Exec Summary)		
					(1 Agreement)		
Concept note review/minutes					(1 PAD)		
BTORs	11	1	4	16	19	2	16
	5	3	2	17	23	2	5
Consultant/General TORs	(4 Aide Memoires)			(1 Aide Memoire)	(5 Aide Memoires)	(1 Aide Memoire)	
Reports / Core Output	11	0	5	9	18	1	21
Presentations / supplementary outputs	11	0	4	21	17	2	22
Minutes / peer review of outputs	11	0	4	9	15	2	20
Proj. Completion Summary	10	0	4	16	16	2	14
	10	0	4	12	13	2	22
Dissemination Docs	(8 Pkgs)			(8 Pkgs)	(12 Pkgs)	(2 Pkgs)	
Other Available documents (No of proj)							
Other Reports	6	0	4	7	7	0	18
Mission Documents	15	0	4	19	18	1	19
Internal memoranda, corres pondence	13	3	2	13	20	2	3
Corresp w/client	20	4	4	21	23	3	19
Procurement docs	16	3	4	12	20	1	19
Disbursement and payment docs	19	3	5	17	18	2	22
Total desired core documents	6	1	1	8	7	1	11
Total core documents available	216	36	54	288	288	27	216
Available documents	92	6	36	125	152	15	162
% Total desired	42.6	16.7	66.7	43.4	52.8	55.6	75.0

Source: IEG analysis.