



# Completion Report

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Project Number: 46206-001  
Technical Assistance Number: 8510  
April 2016

## Developing Local Currency Bonds for Infrastructure Finance in ASEAN+3

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TA No., Country and Name		Amount Approved: \$225,000	
TA 8510-REG: Developing Local Currency Bonds for Infrastructure Finance in ASEAN+3		Revised Amount: N/A	
Executing Agency: ADB	Source of Funding: PRC - Regional Cooperation and Poverty Reduction Fund	Amount Undisbursed: \$ 20,943	Amount Utilized: \$ 204,057
TA Approval Date: 21 Nov 2013	TA Signing Date:	Fielding of First Consultant(s): 14 Jan 2014	TA Completion Date Original: 31 Dec 2015    Actual: 31 Dec 2015  Account Closing Date Original: 31 Dec 2015    Actual: 29 Feb 2016

### Description

At the request of the Association of Southeast Asian Nations plus the People's Republic of China, Japan and the Republic of Korea (collectively known as ASEAN+3) the Asian Development Bank (ADB) provided a technical assistance (TA) to develop infrastructure financing schemes, including bonds issued by project sponsors, municipalities, state-owned enterprises, and special purpose vehicles for financing infrastructure projects under the Asian Bond Markets Initiative (ABMI). Building on the achievements made by ASEAN+3 in developing local currency bonds, this TA reviewed infrastructure-financing schemes, in particular infrastructure bonds in ASEAN+3 and disseminated the successful experience in the region to member countries. The TA also identified feasible debt instruments for financing of domestic and cross-border infrastructure projects. Lastly, the TA explored the possibility of launching an infrastructure bond fund, including feasible modality of the fund, its size, and structure. In light of the contribution made by the Asian Bond Fund (ABF) under the Executives' Meeting of East Asia Pacific Central Banks to the increased demand for local currency bonds in the region, the study took into account the lessons learned from the design and implementation of ABF 1 and ABF 2. The TA on 21 November 2013 and was funded by the PRC Poverty Reduction and Regional Cooperation Fund (\$225,000).

### Expected Impact, Outcome and Outputs

The expected impact of the TA was improved financing schemes, particularly local currency bonds for infrastructure financing, for ASEAN+3. This will enable the region to meet the demand for infrastructure services in the region. The expected outcome was greater volume of local currency bonds for infrastructure finance and reduced reliance on short-term bank loans for infrastructure financing, thereby minimizing the refinancing risk of the loans. More developed infrastructure financing schemes especially through local currency bonds—for both domestic and cross-border infrastructure projects—would facilitate the use of large savings in the region for much needed investment in infrastructure. The expected outputs of the TA were: (i) developing infrastructure-financing schemes studied, including the assessment on the possibility of launching infrastructure bond fund; and (ii) recommendations to policymakers and market participants disseminated.

### Delivery of Inputs and Conduct of Activities

All consultants were engaged as individual consultants in accordance with ADB's Guidelines on the Use of Consultants. The terms of reference for the TA consultants were well formulated. Under ADB's guidance, consultants effectively implemented the TA activities. The study by the consultants was highly satisfactory. ADB and ASEAN+3 member countries have found the study to be highly relevant in guiding policy makers in their tasks of expanding local currency bonds for infrastructure finance. The TA was completed as scheduled on 31 December 2015.

The ADB staff provided guidance and carried out discussions with ASEAN+3 member countries on the study under the TA during the two ASEAN+3 ABMI Task Force Meetings and helped designed the workshop for member countries. The satisfactory performance of ADB and the ASEAN+3 member countries contributed to effective project implementation.

### Evaluation of Outputs and Achievement of Outcome

The outputs of the TA were in accordance with the scope of work required in the approved TA paper. The outcomes were achieved and in several areas even exceeded expectations.

**Study on Local Currency Bonds and Infrastructure Finance in ASEAN+3.** This study addresses two key questions: (i) why is local currency bond financing not more widely used for infrastructure projects in ASEAN+3, and (ii) what can be done to promote infrastructure bond financing. Local currency financing of infrastructure projects has the important advantage of avoiding the currency risk that can arise when a project generating revenues in the domestic currency has foreign currency-denominated debt service requirements. The main findings of the draft final report was initially presented to ASEAN+3 members during the ABMI Task Force Meeting in Seoul on 5 November 2014. Comments from ASEAN+3 officials have been reflected in the final report and was published in July 2015. The

study can be downloaded in the ADB website (<http://www.adb.org/publications/local-currency-bonds-and-infrastructure-finance-asean3>) as well as in the AsianBondsOnline website (<https://asianbondsonline.adb.org>).

**Dissemination Workshop.** A policy discussion workshop to disseminate and discuss the findings of the study was held on 27 February 2015 in Bangkok. Seventy senior officials and policymakers from ASEAN+3 member countries and other ADB staff working on infrastructure finance participated in the workshop.

### **Overall Assessment and Rating**

The TA is rated highly successful in achieving the expected outcome. The TA was well designed and examined relevant issues and provided helpful recommendations for policy makers' consideration. ADB staff, including those not directly responsible for implementation of the TA, have contributed to the TA with inputs and guidance. Importantly, the TA has generated highly outputs because of the active participation and contribution of ASEAN+3 member countries who took ownership of the TA and were working in partnership with ADB to ensure that their inputs are adequately and timely provided for the study.

### **Major Lessons Learned**

The need for infrastructure investment among members of the ASEAN is well documented, with estimates for needed investment through 2020 reaching as high as US\$550 billion. This presents a major financing challenge as the amounts required far exceed what can be provided through government budgets; thus, it also presents a major financing opportunity for the private sector.

Approaches to infrastructure financing vary across the region. Project financing has seen limited use in the region, with the exception of Malaysia where it is quite common. Financing through the government budget has been the predominant approach in most countries in the region, often with development partner assistance in the cases of Cambodia, the Lao People's Democratic Republic, and Viet Nam. Public-private partnerships (PPPs) have been widely used in Malaysia, and to a lesser extent in the Philippines, Singapore, Thailand, and Viet Nam. Sub-national governments and their related financing entities have played a major role in infrastructure finance in the People's Republic of China and Japan. Even countries with a limited history of private investment in infrastructure are now pursuing PPPs and other means of attracting private capital, including off-budget government financing, due to the impracticality of meeting infrastructure investment requirements through budget expenditures alone.

Local currency financing of infrastructure projects has the important advantage of avoiding the currency risk that can arise when a project generating revenues in the domestic currency has foreign-currency-denominated debt service requirements. Without hedging, which comes with a cost and may not be available for long tenors in all currencies, adverse exchange rate movements can increase debt service requirements relative to domestic currency revenues, potentially threatening the viability of a project.

The challenge to increasing the use of local currency financing in a number of countries across the region is the small size of the domestic financial sector, particularly the lack of non-bank institutional investors, relative to needed infrastructure investment. Yet, there is significant demand among institutional investors across the region for high-quality local currency bonds. Investors would purchase more local currency bonds if the supply were greater. Given the demand for local currency corporate bonds on one side, and the need for infrastructure investment on the other, there is scope to expand the use of local currency bonds for infrastructure finance. Experience in ASEAN+3 and around the world highlights the importance of two preconditions for project bond financing: a robust PPP framework and a well-developed domestic currency bond market.

### **Recommendations and Follow-Up Actions**

The ABMI Medium-Term Road Map for 2016–2018 as approved by the ASEAN+3 Finance Ministers and Central Bank Governors Deputies on 3 April 2016<sup>1</sup> stresses that as a continuation of the work done on expanding the use of local currency bonds for infrastructure finance, green local currency denominated bonds will be promoted for member countries and infrastructure project sponsors in the region to raise long-term funds for sustainable infrastructure projects. SDCC will work with regional departments and ASEAN+3 member countries on green bonds for infrastructure finance in the ASEAN+3 region and disseminate the findings from this work to other sub-region.

Also, upon the request of Viet Nam Resident Mission, a report on "New Ideas for Infrastructure Finance for Viet Nam" was prepared based partly on the findings of the TA study.

TA = technical assistance.

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<sup>1</sup> The ABMI Medium-Term Road Map will be announced by the ASEAN+3 Finance Ministers and Central Bank Governors on 3 May 2016.