



Technical Assistance Report

Project Number: 49298-001
Regional—Capacity Development Technical Assistance (R-CDTA)
December 2015

Asian Regional Forum on Investment Management of Foreign Exchange Reserves

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Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
DMC	–	developing member country
PRC	–	People's Republic of China
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.


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CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 49298-001	
Project Name	Asian Regional Forum on Investment Management of Foreign Exchange Reserves	Department /Division	TD/TDCS
Country	REG	Executing Agency	Asian Development Bank
2. Sector	Subsector(s)	ADB Financing (\$ million)	
Finance	Central banking systems		0.75
		Total	0.75
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
Regional integration (RCI)	Pillar 3: Money and finance		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Client relations, network, and partnership development to partnership driver of change	No gender elements (NGE)	
Knowledge solutions (KNS)	Knowledge sharing activities		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Regional	High
6. TA Category:	B		
7. Safeguard Categorization	Not Applicable		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		0.75	
Capacity development technical assistance: Technical Assistance Special Fund		0.75	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		0.75	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		No	

I. INTRODUCTION

1. Foreign exchange reserves have a central place in the policy toolkit of most economies. They are held for many different reasons, including engendering confidence in the national currency, counter disorderly market conditions, support the conduct of monetary policy, build assets for intergenerational purposes, or influence the exchange rate.¹ For many countries, especially in emerging markets, the official foreign exchange reserves are both a major national asset and a crucial tool of monetary and exchange rate policy. Effective and sound management of this national resource is therefore of key importance for policy makers.

2. In 2010, the Asian Development Bank (ADB) Board approved technical assistance (TA) led by the Treasury Department to address requests of developing member countries (DMCs) for exchange of know-how and specific training on investment management.² The overall goal of the TA was to build the capacity of DMC government officials, central bankers, and investment professionals focused on reserve management. Under the TA, five forums were conducted, and these were cohosted by the following central banks: Monetary Authority of Singapore, Hong Kong Monetary Authority, Bank of Korea, National Bank of Georgia, and Bank of Thailand. Participants in these forums were mainly senior officials from central banks, ministries of finance, and other related agencies. In their feedback about the forums, the participants and cohosts appreciated the sharing of country experience by participants from DMCs as well as the comprehensive agenda. Further, they valued ADB's effort in creating this regional platform for further strengthening cooperation and knowledge sharing among reserve managers. Participants indicated that the forums should be held annually to give Asian reserve managers regular opportunity to share best practices and experiences, exchange views with their counterparts from across Asia and the Pacific, and discuss developments on issues related to investment management of foreign exchange reserves.

3. A key learning from the forums is that reserve management continues to be an important focus for central banks, especially after the 2008 global financial crisis, which resulted in a more challenging and complex financial and economic environment. While private sector institutions often organize events in this area, these events are typically driven by private sector considerations such as selling specific products and services or gaining market share in this rapidly growing area.

4. ADB's Treasury Department proposes this regional capacity development TA to (i) build on the momentum of the TA on Investment Management of Foreign Exchange Reserves (footnote 2); (ii) provide updates on standards, norms, best practices, and approaches in investment management of foreign exchange reserves; and (iii) provide an opportunity for reserve managers from ADB developing members to share their respective country experiences and network with peers in Asia and the Pacific.³ Cross-border interaction will support collaborative capacity building and enable officials to increase their awareness and understanding of sound reserve management practices. The TA will facilitate communication and help advance the discussions on investment policy, institutional, and operational issues related to investment management of strategies, frameworks, and techniques. The TA includes (i) regional forums to discuss common interests on investment management of foreign exchange reserves; and (ii) workshops that are based on specific countries and/or subregions to link DMCs with similar levels of economic development and challenges, and/or specific themes.

¹ International Monetary Fund. 2015. *Assessing Reserve Adequacy—Specific Proposals*. Washington, DC.

² ADB. 2010. *Technical Assistance for Regional Forum on Investment Management of Foreign Exchange Reserves*. Manila.

³ The TA concept clearance was obtained on 10 November 2015. It first appeared in the business opportunities section of ADB's website on 2 December 2015.

ADB will also share its experience in and knowledge of investment management with DMCs, and collect feedback regarding client needs, which will help ADB further strengthen its relevance in Asia and the Pacific.

5. This proposed TA will complement initiatives and programs of regional departments on reserve management. ADB's Treasury Department will closely coordinate with regional departments on the TA's activities and provide feedback and/or requests to facilitate further assistance of regional departments in foreign exchange reserve management capacity development. In addition, field experts and relevant organizations (e.g., the World Bank, the International Monetary Fund, the Bank for International Settlements, crown agents, asset management firms, and ratings agencies) will be invited to participate in the discussions, where appropriate.

II. ISSUES

6. Foreign exchange reserves have grown rapidly over the past 15 years. From a total of just under \$2.0 trillion in 2000, central banks hold around \$11.4 trillion as of the second quarter of 2015.⁴ Over this period, the share of global reserves of emerging and developing economies increased from 37% to 67%; the share of Asian economies increased from 49% to around 66%.⁵ Currently, the People's Republic of China (PRC) and Japan hold more than \$4.7 trillion in foreign exchange reserves and other Asian economies are estimated to have more than \$2.1 trillion. It is expected that reserves are likely to stay at high levels but there will be no further accumulation. PRC's foreign exchange reserves, the world's largest, have fallen from a record \$3.99 trillion in June 2014 to \$3.44 trillion as of November 2015. Further, commodity-exporting economies are experiencing changing balance of payments dynamics, with consequences for their central bank asset levels and sovereign wealth funds.

7. For developing Asia, the nature of foreign exchange reserves is different from advanced economies, which have and can print international reserve currencies. Since the 2008 global financial crisis, many developing Asian policy makers understand the value of reserves as the first line of defense against crises to protect a country's economy and finance sector when the global and regional safety nets are not adequately equipped. However, there is an inherent dilemma for developing Asia between the costs of maintaining reserves for the national economy to prepare for future economic and financial crises and the costs of maintaining the portfolio investment. The huge expansion of foreign reserve holdings in Asian economies in absolute terms (Table 1 and Figure 1) and relative to their gross domestic product has placed increased focus on reserve management policies.

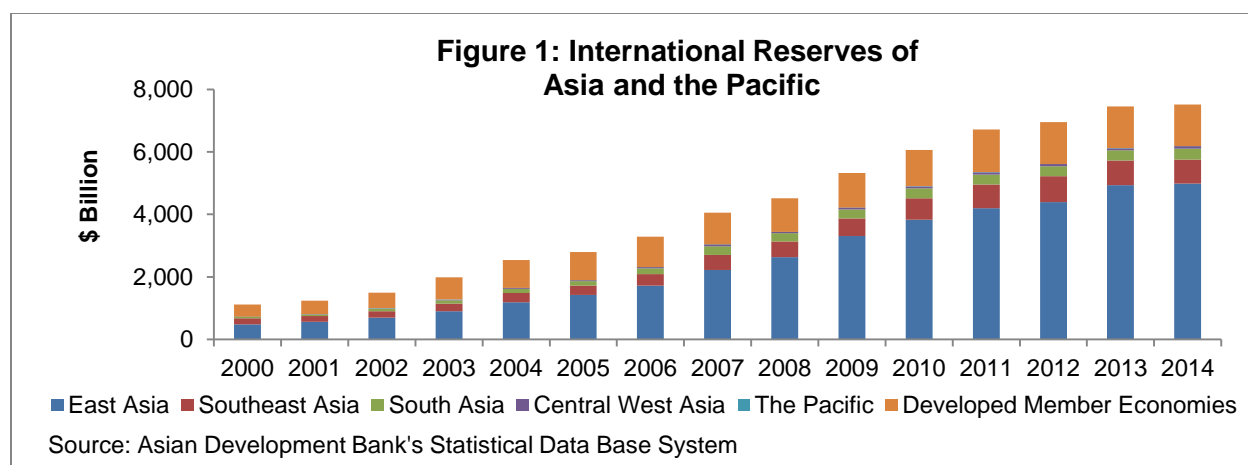
**Table 1: International Reserves
(\$ billion)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
East Asia	484	559	695	897	1,188	1,419	1,716	2,225	2,634	3,306	3,826	4,197	4,398	4,931	4,987
Southeast Asia	191	188	209	244	291	304	368	473	498	561	688	760	820	793	767
South Asia	44	52	75	109	138	144	186	286	266	294	320	319	323	328	355
Central West Asia	9	12	17	23	27	26	46	55	43	53	63	71	68	63	73
The Pacific	1	1	1	1	2	2	2	3	3	4	5	7	7	6	5
Developed Member Economies	384	424	496	713	889	899	964	1,018	1,075	1,107	1,155	1,360	1,335	1,336	1,330

Note: Data refers to international reserves with gold at national valuation
Source: Asian Development Bank Statistical Database System

⁴ International Monetary Fund. Currency Composition of Official Foreign Exchange Reserves. <http://www.imf.org/external/np/sta/cofer/eng/index.htm> (accessed 10 November 2015)

⁵ Central Banking Publications. 2010. *Royal Bank of Scotland Reserve Management Trends*. London.



8. In this evolving environment, the nature of the job of reserve managers has changed. There are additional technical and organizational challenges and the complexity of the job has increased, and this is likely to remain the case for the foreseeable future. While the reserve managers of some countries in Asia and the Pacific are quite experienced and sophisticated, the majority of DMCs are still enhancing their capacity in this area.

9. Reserve managers in ADB DMCs continue to face a difficult investment environment with policy divergence in developed economies, a strong US dollar, and volatile interest rates and exchange rates. The prolonged low-yield environment, including negative yields in some instances, along with the need to manage investment portfolios in uncertain environments and with divergent paths, continues to challenge reserve managers. The impact of market volatility necessitates the need for strong institutional and risk management structures.

10. Against a backdrop of generally rising reserves, central banks need to develop portfolio management skills instead of just managing liquidity. Many reserve managers perceive US dollar rising yields as the dominant risk and have adjusted their US dollar portfolios by shortening duration and making changes in asset allocation. In the pursuit of higher yields in an environment of shrinking supply of safe assets, traditionally conservative reserve managers have invested in nontraditional asset classes such as equities, new currencies, and emerging markets. With the International Monetary Fund deciding to include the renminbi in the special drawing rights basket (effective from 1 October 2016), interest in the renminbi as a reserve currency will further increase. As domestic financial markets in the PRC further open, deepen, and become more institutionalized, they will continue to attract a broader set of sovereign investors and a larger share of reserves.

11. The TA is aligned with the third core area (regional cooperation and integration) and the fourth core area (finance sector development) of operations indicated in ADB's Strategy 2020.⁶ The TA supports monetary and financial cooperation and integration, the third pillar identified by ADB's Regional Cooperation and Integration Strategy,⁷ which envisages capacity building and institutional strengthening of DMCs, and is consistent with the Midterm Review of Strategy 2020 Action Plan,⁸ which highlights knowledge solutions and regional cooperation and integration.

⁶ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

⁷ ADB. 2006. *Regional Cooperation and Integration Strategy*. Manila.

⁸ ADB. 2014. *Midterm Review of Strategy 2020: Action Plan*. Manila.

III. THE CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE

A. Impact and Outcome

12. The impact will be enhanced foreign exchange reserve management in DMCs. The outcome will be enhanced knowledge and understanding of DMC officials on foreign exchange reserve management strategy, frameworks, and techniques. The DMC officials and/or staff who attend the forums and/or workshops will apply what they learn in their reserve management operations.

B. Methodology and Key Activities

13. The TA will include at least four regional forums and workshops for DMCs that will serve as a platform for government officials to enhance knowledge and share information related to reserve management. ADB's Treasury Department will conduct surveys on existing reserve management operations in DMCs before each forum and present results during the forums. Discussion topics at the forums and workshops will include strategic investment portfolio frameworks, asset allocation and portfolio construction, governance and risk management frameworks, the role of sovereign wealth funds in managing reserves, and effective communication with stakeholders.

14. The TA will also include development of knowledge products. The insights and key lessons from the forums and/or workshops will be summarized in a synthesis report. Further, a website and/or dedicated portal on foreign exchange reserve management will be developed, and this will be accessible to participants of the forums and workshops along with interested DMC officials. It can include forum materials if these are not considered confidential by participants.

C. Cost and Financing

15. The TA is estimated to cost \$750,000, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources).

D. Implementation Arrangements

16. ADB will be the TA's executing agency and ADB's Treasury Department will administer the TA and supervise the work of the TA consultants. The TA will be implemented in consultation with regional departments, the Strategy and Policy Department, the Economic Research and Regional Cooperation Department, the Sustainable Development and Climate Change Department, other relevant departments, and ADB's sector and thematic groups,⁹ and will follow the "One ADB" approach.¹⁰

17. One individual international consultant will be engaged for each forum and/or workshop for a cumulative total of 6 person-months. The consultant for each event will be engaged by ADB in accordance with its Guidelines on the Use of Consultants (2013, as amended from time to time). Experts from academia, government agencies, ADB, ADB Institute, and international organizations will be engaged as resource speakers for the forums and workshops.

⁹ ADB's sector and thematic groups (formerly communities of practice) represent ADB's collective knowledge and expertise in specific development sectors and themes.

¹⁰ The action plan for the Midterm Review of Strategy 2020 calls for promoting a "One ADB" culture to consolidate and strengthen delivery of knowledge work and services.

18. The TA will be implemented over a period of 6 years, from 1 January 2016 to 31 December 2021. It will include at least four regional forums and/or workshops for DMCs that may be held every other year or more frequently, depending on when each cohost agrees to accept and conduct the event.

19. Target participants are senior and working-level reserve management officials of central banks from ADB developing members. They may also nominate officials from relevant agencies such as sovereign wealth funds, natural resource funds, and ministries of finance who are directly involved in reserves management. Each developing member can nominate up to two participants per forum. Each forum is expected to last for 2–3 days. Forum venues will be decided based on logistical and cost considerations.

20. As mentioned in para. 19, an ADB developing member will cohost a forum. When a relevant central bank, ministry, and/or institution of an ADB developing member agrees to cohost a forum with ADB, the event will be jointly organized by the two institutions. Responsibilities of the cohost will generally include delivering a keynote speech during the opening session, reviewing and providing inputs to the forum agenda, providing speaker(s) and/or moderator(s), and providing administrative and logistical support.

21. Workshops on investment management of foreign exchange reserves that are based on specific countries and/or subregions and/or specific themes will be designed and organized for DMCs by request and will be of 1–2 days' duration. Thirty participants for each workshop is considered effective to ensure adequate interaction between participants and resource speakers. For subregional workshops, each DMC can nominate up to five participants. However, the DMC where the workshops will be held can nominate more than five participants, subject to the budget for that particular workshop. These workshops may be jointly organized with other development partners, ratings agencies, and investment banks to tap into their wide experience on this subject.¹¹ In some cases, it may be practical to leverage existing workshops of development partners where the requesting DMC can nominate up to two participants.

22. A no-objection letter will be obtained prior to the commencement or financing of any undertaking in the territory of any country covered by this TA. The TA will be disbursed in accordance with the *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).

IV. THE PRESIDENT'S DECISION

23. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$750,000 on a grant basis for the Asian Regional Forum on Investment Management of Foreign Exchange Reserves, and hereby reports this action to the Board.

¹¹ Development partners such as the World Bank, the International Monetary Fund, the Bank for International Settlements, Asian Development Bank Institute, and crown agents.

DESIGN AND MONITORING FRAMEWORK

Impact the TA is Aligned with

Enhanced foreign exchange reserve management in DMCs

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome Knowledge and understanding of DMC officials on foreign exchange reserve management strategy, frameworks, and techniques enhanced	By December 2021, 65% or more participants indicated that they are likely to apply knowledge gained from the forum and/or workshop in their foreign exchange reserve management practices (Baseline: Not applicable)	TA progress reports	DMC commitment to capacity development and adoption of learned techniques not sustained
Outputs 1. Knowledge sharing and learning events related to foreign exchange reserve management conducted 2. Knowledge products developed	1a. By December 2021, 75% or more participants from at least three regional forums and one country and/or subregion workshop reported enhanced knowledge of foreign exchange reserves management (Baseline: Not applicable). 1b. By December 2021, at least 15 country experiences shared at regional forums (Baseline: Not applicable) 2a. By December 2018, forums and/or workshop synthesis report with insight and key lessons developed (Baseline: Not applicable) 2b. By December 2021, at least 60% of participants used website and/or dedicated portal developed for foreign exchange reserve management (Baseline: Not applicable)	TA progress reports	Governments' inability to retain trained and/or experienced staff

Key Activities with Milestones**Output 1: Knowledge sharing and learning events related to foreign exchange reserve management conducted**

- 1.1 Obtain no-objection letters from participating developing members by Q4 2016
- 1.2 Engage consultant, conduct survey on existing reserve management operations of developing members, and conduct first regional forum by Q4 2016
- 1.3 Engage consultant and conduct specific country, subregion, and/or thematic-based workshop by Q4 2017
- 1.4 Engage consultant, conduct survey on reserve management operations of developing members, and conduct second regional forum by Q4 2018
- 1.5 Engage consultant, conduct survey on reserve management operations, and conduct third regional forum by Q4 2019
- 1.6 Engage consultant, conduct survey on reserve management operations, and conduct fourth regional forum by Q4 2020, depending on demand and budget
- 1.7 Engage consultant, conduct survey on reserve management operations, and conduct fifth regional forum by Q4 2021, depending on demand and budget

Output 2: Knowledge products developed

- 2.1 Develop website and/or dedicated portal on foreign exchange reserve management by Q3 2017
- 2.2 Prepare synthesis report on insights and key lessons from regional forums and workshop by Q4 2018

Inputs

ADB: \$750,000

Assumptions for Partner Financing

Not applicable.

ADB = Asian Development Bank, DMC = developing member country, Q = quarter, TA = technical assistance.
Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN

(\$'000)

Item	Amount
Asian Development Bank ^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultant	60.0
b. International travel	15.0
2. Forums and workshops	
a. Participants' travel, accommodation, and per diem	340.0
b. Resource speakers	150.0
c. Administration costs ^b	110.0
3. Miscellaneous administration and support costs ^c	35.0
4. Contingencies	40.0
Total	750.0

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-other sources).

^b Includes conference rooms, meals during the events, and rental of equipment to be used in the conduct of the forums and workshops.

^c Includes printing, courier, shipping, and other miscellaneous expenses.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. The technical assistance will require consulting services carried out by one international consultant (investment management expert) for each forum and/or workshop.

2. **Investment management expert** (1 international, 6 person-months, on retainer basis). The expert should have solid experience and in-depth knowledge of reserves management, a good understanding of central bank operations, extensive knowledge of reserve management practices and challenges in Asia and the Pacific, working experience with government officials in Asia and the Pacific, at least a bachelor's degree, and experience in similar assignments. Tasks will include the following:

- (i) design surveys for each regional forum and workshop to assess the status and training needs of target developing member countries on reserve management frameworks;
- (ii) formulate forum and workshop programs to meet the developing member countries' requirements based on the results of surveys;
- (iii) participate in forums and workshops as a resource speaker and/or facilitator;
- (iv) prepare forums and workshop and training materials;
- (v) assist in selecting and inviting resource speakers for forums and workshops;
- (vi) prepare progress and summary reports for all forums and workshops including achievements versus targets and future improvements; and
- (vii) undertake ad hoc projects in research, consultation, and/or advice on this subject.