



Regional: Strengthening Asia's Financial Safety Nets and Resolution Mechanisms

Project Name	Strengthening Asia's Financial Safety Nets and Resolution Mechanisms		
Project Number	51118-001		
Country	RegionalKazakhstanKorea, Republic ofMalaysiaChina, People's Republic ofThailandViet Nam		
Project Status	Active		
Project Type / Modality of Assistance	Technical Assistance		
Source of Funding / Amount	TA 9497-REG: Strengthening Asia's Financial Safety Nets and Resolution Mechanisms		
	Technical Assistance Special Fund		US\$ 250,000.00
	People's Republic of China Poverty Reduction and Regional Cooperation Fund		US\$ 125,000.00
	Republic of Korea e-Asia and Knowledge Partnership Fund		US\$ 125,000.00
Strategic Agendas	Inclusive economic growth Regional integration		
Drivers of Change	Knowledge solutions Partnerships Private sector development		
Sector / Subsector	Finance - Banking systems and nonbank financial institutions - Finance sector development		
Gender Equity and Mainstreaming	No gender elements		

Description

The knowledge and support technical assistance (TA) will address the issue of nonperforming loans (NPLs) in Asia and the Pacific region by supporting the development of a national strategy and a market for NPLs or distressed assets through research and capacity building. This will be coupled with knowledge sharing through Annual Summit Meetings and Conferences of the International Public Asset Management Company Forum (IPAF), as well as training workshops to build the capacity of public asset management companies (AMCs), deposit insurance institutions, and other invited regional participants to manage distressed assets. The TA supports Regional Cooperation and Integration (RCI), a key strategic agenda under Strategy 2020. This TA will also contribute to the third strategic pillar of the RCI Strategy, 2006 the development, deepening, and harmonization of regional financial markets by supporting regional forums and regional macroeconomic and financial stability through research and information dissemination, capacity building, and institutional strengthening and partnership. The TA project's purpose is also aligned with the Financial Sector Operational Plan, 2011 and the plan's mid-term review, 2017 by supporting banks and nonbank financial institutions, and investing in NPL resolution and AMCs. It is also aligned with the RCI Operational Plan, 2016 in helping developing member countries (DMCs) of the Asian Development Bank (ADB) harness increased benefits through improved cooperation and integration and by strengthening ADB's institutional capacity to encourage RCI through a larger, more innovative portfolio.

The TA's impact would be: Regional financial stability and resilience in Asia strengthened through the design of NPL resolution mechanisms and development of NPL or distressed asset markets (as defined by the TA).

Its outcome would be: Strategies identified and developed for national NPL resolution mechanisms and the development of NPL or distressed asset markets in emerging Asia.

It has the following four major outputs:

(i) Knowledge Shared through Annual Summit Meetings and Conferences. The IPAF conducts annual summit meetings and conferences among its members, joined by public and private sector experts and policy makers to share knowledge and experiences in NPL resolution and debt restructuring. IPAF members also meet frequently to discuss strategies for NPL resolution and the development of NPL or distressed asset markets as well as concrete action plans. In addition to resolution mechanisms, the members may also identify financial infrastructure conditions that could lead to a surge in NPLs, either to preempt such a situation or to provide solutions when NPLs become a concern. These meetings benefit DMCs by promoting awareness and the adoption of a national strategy and potential mechanisms for NPL resolution appropriate to each country's economic and financial environments. ADB and the IPAF chair will jointly organize and host the annual IPAF summits, at which participants will discuss strategic directions for the IPAF in the succeeding years, and progress will be monitored and evaluated based on the IPAF charter and on this TA's Design and Monitoring Framework.

(ii) Research Undertaken. This TA will produce major research papers and case studies on successes and failures in dealing with distressed assets in the region, and explore ways to strengthen Asia's financial safety nets, including the buttressing of potential roles for AMCs and deposit insurance schemes, thereby addressing the issues stated in the rationale. Key research activities will include the following: (i) a study on developing NPL markets, including their prerequisites, strategies and possible modalities; (ii) a study on national and regional approaches or policy recommendations for dealing with distressed assets, focused on developing strategies to develop NPL or distressed assets market; and (iii) a study on legal and regulatory aspect of NPLs, possibly including an analysis of the debt and distressed assets of state-owned enterprises; and Asia's experience in dealing with NPLs, including financial supervision and market development compared to approaches of other regions. These research findings will be presented in conferences and seminars, in collaboration with the Finance Sector Group to reach as many finance sector professionals in ADB as possible. These findings will inform country partnership strategies and country operations business plans for DMCs, as well as operations departments' engagements with the public sector and private sector institutions dealing with financial stability. The findings will be published and disseminated through knowledge sharing events.

(iii) Training Workshops Conducted. One training program will be conducted each year during 2018-2020 to build the capacity of financial authorities, public AMCs, deposit insurance institutions, and other invited participants to manage distressed assets. It is critical for AMCs with advanced skills in distressed asset management and financial strength to share their knowledge and experiences with new AMCs in the region. This will help AMCs expand operations outside their home bases, creating win-win value and promoting regional skills transfer.

(iv) International Public Asset Management Company Forum Promotion and Expansion Effected through Website Management. The IPAF will continue to provide members with online access to relevant data and information, research papers, reference materials, training schedules, and networking data through continued management of the IPAF website.

Project Rationale and Linkage to Country/Regional Strategy

A sound financial system is crucial to support economic growth and poverty reduction. Therefore, DMCs must safeguard the soundness of their financial systems to ensure that financial markets and systems function well as intermediaries while maintaining financial stability. NPLs threaten financial stability and are often linked to financial crises, as they affect both lenders (by reducing capital resources for lending and increasing the probability of bank failure) and borrowers (by increasing the probability of bankruptcy due to debt default). Financial crises, which are costly and detrimental to growth and poverty reduction, tend to raise NPL volumes, and persistently high NPLs in turn hinder crisis recovery.

NPL management remains the focus of discussions on safeguarding financial stability and preventing financial crises effectively and pre-emptively. It is also necessary to consider potential spillover effects. The literature on contagion stresses that financial shocks can spread rapidly through financial linkages and different channels. For example, a shock to one country's financial sector (such as a sharp increase in NPLs or a deposit run) can cause banks in the country to reduce lending to banks in other economies as well. Policy responses to the 1997 Asian Financial Crisis and recent European debt crisis reveal that AMCs in Asia and Europe play a critical role in facilitating bank restructuring and asset recovery and therefore represent an important layer of national financial safety nets.

Under the TA on the Establishment of the International Public Asset Management Company Forum, the IPAF strengthened the existing knowledge base on the assessment of country-level NPLs and shared resolution experiences unique to each country's development context and economic situation. The TA team completed four research papers providing policy tools and options by building on empirical analyses of NPL resolution, including individual country experiences in Asia as well as cross-regional experiences. The IPAF was established in 2013, with seven member institutions from five countries. Over time, the IPAF's membership expanded to include deposit insurance institutions. The IPAF currently has 12 member institutions.

While NPLs accounted for less than 3% of total gross loans in most economies in Asia and the Pacific region in 2016, this ratio was greater than 5% in Afghanistan, Bhutan, the Maldives, and Pakistan; and it was 10% in Tajikistan. Due to data reporting limitations in some countries, these figures may underestimate the true level of NPLs. For example, in December 2016, Mongolia's NPL ratio was 8.5%, but this figure is expected to increase, because banks have been allowed to reschedule past due loans and NPLs leniently due to regulatory forbearance by the Bank of Mongolia. Many economies in developing Asia have also recognized loans as normal and performing under practices that differ from international best practice. Moreover, many economies in Asia appear to lack adequate supervision, NPL data tracking, and resolution mechanisms. For example, according to World Bank data, of the 48 Asian regional members, only 28 report banking sector NPL data.

Steady increases in NPLs in some regional economies alarm policy makers and market players alike. In this context, during the IPAF Summit in October 2015, IPAF members issued a joint statement calling for (i) the strengthening of IPAF members' operational capacity, (ii) enhanced coordination and cooperation among IPAF members, and (iii) an improved framework for the IPAF platform. IPAF members asked ADB to continue in its role as IPAF Secretariat to build IPAF member capacity to deal with growing NPLs and to conduct a study on developing regional NPL markets. This reaffirms the IPAF's aim to enhance financial stability, financial development, and inclusive growth by addressing financial vulnerabilities, contagion, and systemic risks, as well as by specifically sharing knowledge and policy experience in dealing with distressed assets or NPLs in Asian economies.

In response to the growing demand for ADB assistance on these issues, this TA is proposed to address the issue of NPLs and distressed assets in Asia, support the design of national NPL strategies and resolution mechanisms, and facilitate the development of NPL or distressed asset markets. Developing such markets is a challenge that requires policy efforts to build necessary financial market infrastructure, address legal and institutional weaknesses, and review and revise supervisory guidelines and regulatory standards to facilitate NPL write-offs. Each economy faces different conditions that must be considered in developing a distressed asset market including legal, regulatory, and institutional frameworks; financial market and infrastructure development; and fiscal situation. Hence, each development experience offers valuable lessons applicable to the region.

Impact	Regional financial stability and resilience strengthened in Asia through design of NPL resolution mechanisms and development of NPL/distressed asset markets.
Project Outcome	
Description of Outcome	Strategies identified and developed for national NPL resolution mechanisms and developing NPL/distressed asset markets in emerging Asia
Progress Toward Outcome	
Implementation Progress	
Description of Project Outputs	Knowledge Shared through Annual Summit Meetings and Conferences Research undertaken Training Workshops conducted IPAF Promotion and Expansion Effected through Website Management
Status of Implementation Progress (Outputs, Activities, and Issues)	
Geographical Location	China - Nation-wide; Kazakhstan - Nation-wide; Korea, Republic of - Nation-wide; Malaysia - Nation-wide; Thailand - Nation-wide; Viet Nam - Nation-wide

Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

Stakeholder Communication, Participation, and Consultation

During Project Design

During Project Implementation

Responsible ADB Officer Lee, Junkyu

Responsible ADB Department Economic Research and Regional Cooperation Department

Responsible ADB Division ERCI

Executing Agencies *Asian Development Bank
6 ADB Avenue,
Mandaluyong City 1550, Philippines*

Timetable

Concept Clearance 05 Apr 2017

Fact Finding 02 May 2017 to 30 Jun 2017

MRM -

Approval 29 Jan 2018

Last Review Mission -

Last PDS Update 30 Jan 2018

TA 9497-REG

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
29 Jan 2018	-	29 Jan 2018	31 Dec 2020	-	-

Financing Plan/TA Utilization						Cumulative Disbursements		
ADB	Cofinancing	Counterpart				Total	Date	Amount
		Gov	Beneficiaries	Project Sponsor	Others			
250,000.00	250,000.00	0.00	0.00	0.00	0.00	500,000.00	29 Jan 2018	21,981.48

Project Page <https://www.adb.org/projects/51118-001/main>

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