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### **Brief Report on the Outcome of the Seminar on” “New Approaches to Local Currency Financing:**

In conjunction with ADB's 38th Annual Meeting held in Istanbul, Turkey, ADB organized a seminar on 'Financing the City - New Approaches to Local Currency Financing' on Tuesday, 3 May 2005. The keynote speakers at the seminar included Mr. Burhanuddin Abdullah Governor Bank Indonesia, Mr. Kai Nargolwala Chair Wholesale Bank and Group Executive Director, Standard Chartered Bank, Mr. Robert Gray, Chair Debt Financing and Advisory Group of HSBC Bank, Mr. Lincoln Leong, Finance Director, MTR Corporation. Ms. Lorraine Hahn a veteran business journalist and host of CNN's 'Talk Asia' moderated the seminar. The seminar was the last of a series of three on the problems and opportunities presented by the projected growth of Asia's urban infrastructure.

Mr. Abdullah in his keynote speech provided an introduction to the subject by highlighting huge funding requirements for investments in urban infrastructure and that private sector resources are required to fund this gap as national budget can fund only a small fraction of the infrastructure investment needs. He then mentioned that offshore investors are still shy of investing in urban infrastructure for risks associated in the form of currency risk, regulatory risk, clearances required and tariff structure etc. He then spoke on the role that multilateral agencies can play to facilitate private sector led infrastructure growth. He called upon multilaterals to introduce innovative mechanisms and financial products that will enable investment in urban infrastructure. Mr. Abdullah praised the efforts of ADB in introducing local currency swap product with its developing member countries by citing associated benefits when compared with an offshore borrowing by a sovereign government. For countries wanting to pursue a foreign investment led growth, swap market development is a prerequisite for promoting local currency financing options including bond market development. He then described as to how double mismatches i.e. currency and tenor mismatches had hampered banking and financial sector during the Asian crisis in 1997. In conclusion he called upon policy makers to focus on developing deep and liquid long term local capital markets and strengthening of the financial sector that would be supportive of urban infrastructure development.

Mr. Nargolwala spoke on recent developments around Asia's rapidly expanding bond markets and the need for large scale infrastructure funding spurred by regional cooperation. He mentioned that a vibrant capital market is no longer a luxury for Asia - it is a necessity. He said that Asia has reached the tipping point where incremental changes will make big differences to the landscape of its financial markets. He mentioned that Asia could look forward to explosive growth in years ahead. In describing the urgency of developing local capital markets in Asia, he mentioned that capital markets are not just debt markets but include swap and equity markets. Local currency volatility is a major impediment to foreign investment. He then presented a few case studies from the region in relation to local capital markets development.

Mr. Gray spoke on the success factors of today's Asian bond markets in the global context. He highlighted the conviction of ADB in introducing long term fixed interest rate bearing local currency funding in all the countries in which it operates. He cited relative shape of government bond yield curves and cross currency swap curve as the main reason for slow issuance in local bond markets. He then asked ADB to create benchmark bonds and yield curves, and develop

long term hedging instruments. He encouraged the policy makers to relax the legal and regulatory restrictions that are impeding market development.

Mr. Leong presented a unique business model to finance a capital intensive metro rail infrastructure. He introduced the rail and property business of MTR corporation that has benefited all stakeholders and has enabled finance a significant investment in the metro rail system. He told the audience that MTR business model had benefited Hong Kong society as well as a number of communities along rail alignments. The dual business model helped keep the fares affordable for the passengers while creating value for the shareholders. He clarified that contrary to the common views, land for development of a rail infrastructure is not granted for free to MTR Corporation. In stead MTR pays a land premium calculated on the basis as if there does not exist a metro rail system in the area. The value addition comes from the building and operating new rail extension systems that increase the value of the land.

Ms. Lorraine Hahn thanked the speakers and facilitated the audience to ask questions to the speakers on the subject. A number of questions were raised that were relevant to development of local currency financing initiatives, urban and city infrastructure financing requirements, policy framework, new business models, and impact of double mismatches to the economy. She concluded the seminar by saying that ADB seminar was perfectly timed given the number of viewpoints and approaches to solving the problem of enormous infrastructure projects.

The seminar was attended by more than 140 participants.