# Developing regional capital markets: Local currency finance for infrastructure

# Questions that have been posed

• What are the obstacles to expand local currency finance for pubic infrastructure?

•What policy options could help increase maturities?

•What implications does the increasing use of innovative instruments have for risk management systems of public entities?

•How could the access of municipalities to local and regional capital markets be facilitated?

# Obstacles to local currency finance for infrastructure

- Absence or weak local capital markets due to:
  - Lack of or limited amounts of pools of funds: pension funds, insurance policy funds, etc that by their nature look for long term investment opportunities
    - Policies and regulations relating to these can help or hamper development of local markets
    - They can determine whether a country will be able to build a large institutional investor and asset managers base necessary to facilitate expansion of local markets
  - Small economies without diversified sources of income and revenue for governments and low fiscal effort
    - Excessive dependence on external funding: grants etc rather than taxes
    - Among other things, this small issuances, lack of diversification of instruments, lack of volumes and liquidity
  - Regulatory environments that are not conducive to pooling of funds, to the development and expansion of institutional investors, that do not give certainty about reasonable returns and repatriation of these across borders …
  - Information technology: lack of IT and certain inflexibilities that IT creates can stand in the way of regional cooperation in the development of capital markets

# Policy measures to increase maturities

- Sovereigns that seek to promote development of capital markets must adhere to market and investor-friendly policies, regulations and practices
  - Transparent, consistent and stable policies are key
- Policies that govern pension funds, insurance industry, etc, should seek to enhance the creation and expansion of these
- Lagislative and regulatory regimes should support the emergence and expansion of institutional fund management
- Sovereigns, local government and SOEs should strive to create sound and sustainable revenue basis for themselves
  - Tax policies, user charge policies, setting of administered prices, etc should assure investors of the ability of borrowers to repay
  - Sovereigns should set benchmarks for other issuers: LG and SOEs

# Implications of innovative debt instruments for risk management of SOEs

- Where multiple and complex instruments are used risk is heightened and risk management becomes complex
- Rule of thumb: any instrument that has some degree of obscurity should be avoided
- Regulators need to stay ahead of the curve,  and this is not always possible

# How could the access of municipalities to local and regional capital markets be facilitated?

- Finances of municipalities must be put on sound footing:
  - Expand revenue bases and exploit all potential revenue sources
  - Collect all or at least most of the revenues
  - Present budgets and financial statements that are credible
    - SA has strict, regulated disclosure requirements
- Because some municipalities are small they can only borrow in the form of loans, or cannot borrow at all
  - DFIs might play a role in building capacity in small and poorer municipalities, including partnering with private sector
- Municipalities should subject themselves to credit rating
- Consider bond pooling where this seems feasible
  - Sweden and Denmark have done this