Sub-national Pooled Financing

Full Description

Despite a world awash with liquidity, large infrastructure supply gaps exist across developing and emerging markets. Infrastructure has been largely decentralized to subnational governments (SNGs) in many countries. Many policymakers are keenly interested in developing subnational bond markets to give SNGs access private financing for infrastructure. Despite this, the transaction costs of bond issuance are still prohibitive for small SNGs to access financing.

Pooled financing, through regional infrastructure funds, municipal funds, or bond banks, has become a sought-after solution for helping SNGs access private financing for infrastructure. A set of questions have emerged:

- What are the necessary governance and managerial systems?
- What are the policy requirements needed to make pooled financing work?
- Should, and how, does a pooled financing facility appraise potential projects?
- How should the pooled facility manage the default risks of borrowers, particularly for small municipalities?

This BBL will address these questions by examining the successful experience of state bond banks in the United States, which since the 1970s have become a cost-effective and stable model for expanding subnational financing for many small municipalities, while maintaining strong credit ratings with virtually no defaults from sub-borrowers. In Maine, for example, since its founding the municipal bond bank has issued 1,814 loans to 517 government units. The bank has also been successful in lowering financing costs for small, unrated government agencies, with the median size loan from 2012-2016 being $842,000 and the smallest loan only $30,000.

The BBL will also discuss broader lessons for developing countries that are interested in establishing pooled financing for subnational infrastructure.

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