Urban Local Bodies and potential for Municipal Bond Market

Introduction

The Constitution of India has established three levels of government: central, state, and local. The central government is mainly involved in preparation and coordination of national polices and strategies. The state governments are the next layer in the federal structure. The local bodies operate at the rural and urban levels. At the urban level, the urban local bodies (ULBs) work in close association with the Ministry of Urban Development and other ministries to provide public services to their respective regions.Local Bodies play a critical role in the delivery of social, economic and infrastructure services.

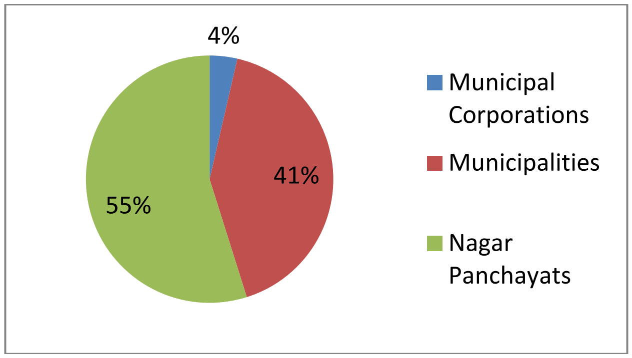
Despite the critical role being played by ULB's their tax bases are narrow, inflexible and lack buoyancy compared with that of the state and the central governments. At the same time with the pace of urbanization increasing across states, there is pressing need to bring about growth in the requisite amenities to ensure that there is balanced growth. Urbanization has been on the increase with 31.1% of the population residing in these regions. Besides organic growth taking place within these centres, migration has been an important factor that has led to an increase in the urban population. The relative decline in attractiveness of farming has caused substantial migration to cities and towns leading to overpopulation, growth of slums, increased demand for water, power supply, housing, and sanitation and health facilities. Hence, migration calls for better supply of urban infrastructure which requires funding.

With the deteriorating fiscal health of States, the access of ULBs to get its funding from the State budgetary support mechanism for the funding of capital projects remains under pressure. The resource constraint of ULBs has contributed to huge under-spending in relation to what is needed to build urban infrastructure and deliver public services. Thus, with a growing population to be served, increasing pressure for better service delivery, and curtailed access to traditional sources of funding, ULBs are required to explore new sources of funding as well as new service delivery channels.

Urban Local Bodies (ULB's) in India

In India, prior to the implementation of The 74th Constitutional Amendment Act 1992, ULBs were defined by the Municipal Corporations, Municipal Councils, Town Area Committees and Notified Area Councils/ Committees. Hence, the structure and composition of municipalities varied considerably across regions/states, with wide differences in definition and structure between states.The 74th Constitutional Amendment Act 1992, brought uniformity in the constitution of the municipal bodies by classifying them as Municipal Corporations for large urban areas, Municipalities for smaller urban areas, followed by Nagar Panchayats and suburban government bodies. According to the Thirteenth Finance Commission (TFC), at present there are 3,842 ULBs in India, of which 139 are Municipal Corporations, 1,595 are Municipalities and 2,108 are Nagar Panchayats (Chart 1).

Chart 1: Distribution of ULBs



Source: Thirteenth Finance Commission

Role of Urban Local Bodies

Adam Smith has rightly quoted the three duties of the state firstly to protect society from 'the violence and invasion of other independent societies', secondly, to establish an 'exact administration of justice' and lastly, to provide for 'certain public works and certain public institutions'.

However, it is observed that the third tier government i.e. the local bodies can execute these functions more efficiently as they are in a better position to closely identify and administer the needs of their respective regions. Hence, the provision of urban infrastructure services remains the key function of the urban local bodies. These services mainly comprise infrastructure development in urban areas such as transport, water supply, sanitation and hygiene, sewerage and drainage, waste management, etc.

In a developing country like India, due to rapid urbanization there exists a large infrastructure funding gap as the receipts of the local bodies prove to be insufficient to meet their increasing expenditures. Sources of funds for the urban local bodies are restricted to property tax, professional tax, entertainment tax, revenues from octroi, tolls, etc. The growth in these taxes has not been substantial. Also, the ceiling of 3% on fiscal deficit of states has laid a limit for the local bodies to provide funds in order to meet demands of growing urbanization. In the present scenario, due to limited financial powers and growing responsibilities the urban local bodies are unable to catch up with the pace of rapid urbanization. Hence, local bodies need to identify new sources of finances for their projects.

Thus arises a need for further insight on the urban infrastructure development, its funding requirements, and alternative sources to raise them based on the study of certain international and domestic cases and considering the various demand and supply factors to provide urban local bodies with a framework in order to help play their role independently and efficiently.

Urban Infrastructure – Funding Requirements

Rapid urbanisation in India has led to tremendous pressure on urban infrastructure systems like water supply, sewerage and drainage, solid waste management, parks and open spaces, transport etc. The Eleventh five year plan has estimated that the total fund requirement for implementation of the plan target in respect to urban water supply, sewerage and sanitation, drainage and solid waste management is Rs. 1, 29,237 crs.

(Table 1). The working group Report on urban Transport for 11th five year plan had estimated an investment requirement of Rs.1, 32,590 crore for improving the transport system.

Table: 1 Fund requirement for Urban Infrastructure (estimated): 2007-12

Sr. No	Sub-Sector	Estimated Amount (Rs. in crs.)	% share of expenditure
1	Urban water supply	53,666	41.5
2	Urban sewerage and sewage treatment	53,168	41.1
3	Urban drainage	20,173	15.6
4	Solid waste management	2,212	1.7
5	MIS	8	0.0
6	R&D and PHE training	10	0.0
	Total	1,29,237	100

Source: Ministry of Urban Development, GoI.

12th five year draft plan has highlighted that the Infrastructure of India's present towns is very poor. Sewage, water, sanitation, roads, and housing are woefully inadequate for their inhabitants. The worst affected are the poor in the towns. As more urban conglomerations form and grow without adequate Infrastructure, the problems will only become worse. The draft plan approach has thus highlighted the challenges:

- It is estimated that a total of about Rs. 40 lakh crore (2009/10 prices) as capital expenditure and another about Rs.20 lakh crore for operation & maintenance (O&M) expenditure for the new and old assets will be required over the next twenty years.
- It lays emphasis on need to strengthening of urban governance by making significant changes in administrative rules.
- Strengthening of governance structures, the enormous weakness in the capacity of human and organisational resources to deal with the challenges posed by the sector.
- To give adequate emphasis to long term strategic urban planning to ensure that India's urban management agenda is not limited to 'renewal' of cities. It must also anticipate and plan for emergence and growth of new cities along with expansion of economic activities.
- To address the basic needs of the urban poor who are largely employed in the Informal sector and suffer from multiple deprivations and vulnerabilities that include lack of access to basic amenities.

The 13th Finance Commission points out that the aggregate resource requirement of ULBs for fulfilling all their functions is significantly larger. The expenditure of local bodies has significantly increased in the recent past due to three reasons: first, the impact of the Sixth Pay Commission; second, additional operation and maintenance costs due to larger investments in civic infrastructure and third, additional investments necessary for improving the accounting system, computerisation of operations, tax administration, and project monitoring. On the basis of data collected from the states, it has estimated the resource gap of the urban local bodies as under:

Table: 2 Estimates of resource gap of urban local bodies

Sr. No	Sub-Sector	Estimated Amount (Rs. in crs.)
1	Requirement for all states based on a uniform per capital requirement of Rs. 1578 per annum for provision of core services	63,893
2	Requirement of O&M for new assets funded under central schemes	20,000
3	Requirement under state schemes	16,400
4	Impact of the Sixth Pay Commission	24,288
5	Capacity building	1,290
	Total	**1,25,871**

Source: Thirteenth Finance Commission

Government initiative - JNNURM

Jawaharlal Nehru National Urban Renewal Mission (JNNURM) is a comprehensive effort by India’s central Government to improve urban infrastructure in cities and towns across the country. To meet the challenges of growing urbanization and to enable Indian cities to develop to the level of global standards, a comprehensive programme, namely JNNURM was launched in December, 2005. Under the JNNURM, approximately Rs. 1, 00,000 crs was to be invested during the seven year period 2005-2012 for improvement of urban infrastructure and providing basic services for the poor in urban areas. Government had identified 65 cities under urban infrastructure and governance component of the JNNURM program. Till July, 2012 the government approved 552 projects at a total cost of Rs. 62,041.79 crs under urban infrastructure and governance component. Out of 552 projects approved 146 have been successfully completed so far. Over Rs. 80,000 crore, have been spent on the JNNURM since 2005 according to latest reports.

Urban governance has been very weak with less than satisfactory coordination. The Ministry of Urban Development has thus proposed a significant makeover, with a new version of the urban renewal mission in the works of which the draft cabinet note is circulated. The new version i.e. JNNURM 2 would fund projects worth $40 billion (about Rs 220,000 crs) in the next five years.The central focus of this new version would be:

- To ensure timely completion of projects through more robust planning and capacity building of urban administrations.
- To focus on institutional reforms and improving processes such as planning and implementation.
- To bring convergence among departments so that they operate together. For instance, every water supply project must also be accompanied by a sewage treatment plant.
- It also proposes to fund projects through loans, which could be converted to grants if agreed reforms are implemented at the state or city level.

Considering the above scenario, it is evident that urbanization agenda being so large centre cannot be giving all the money for projects. Hence, the focus of the centre remains institutional reforms and improving the backbone processes such as planning and implementation. Thus, it is the municipal bodies that need to stand up by themselves.

Table: 3 JNNURM Projects – Sector wise sanction since 2005
(Urban Infrastructure and Governance)

Sr. No	Sector	Number of Projects Sanctioned	Cost of Projects Sanctioned (Rs. in crs.)	Number of projects completed
1	Water Supply	157	20,485.8	42
2	Sewerage	112	14,980.0	20
3	Drainage/ Storm water Drainage	73	8,400.0	15
4	Solid Waste Management	44	1,972.8	7
5	Roads/ Flyovers	101	8,483.1	46
6	Public Transport System	21	5,211.5	3
7	Other Urban Transport	17	818.6	10
8	Urban Renewal	11	486.5	2
9	Development of Heritage Areas	7	225.9	1
10	Preservation of Water Bodies	4	116.7	-
11	Parking	5	860.4	-
	Total	**552**	**62,041.7**	**146**

Source: JNNURM, Reforms Progress, July 31, 2012

Municipal Finance:

Municipalities have neither the responsibility nor the autonomy of fiscal powers for delivering the urban services expected from them. There is a mismatch between ULB revenue capacities and their financial requirement. ULBs need to take steps for broad-basing the revenue from own sources through improving the collection of existing revenue sources, reforms in property tax, levy of new taxes and charges, enhanced cost recovery for utility charges and fees, improved information, registration, billing and collection systems of taxes and charges, reducing administrative expenses, etc. Innovative methods of service delivery and involvement of private sector will improve the financial position of municipalities.

Sources of Municipal finance

The Municipal bodies mainly generate their revenues from three sources viz. Exclusive taxes, revenue-shared taxes, and non-tax revenues .Exclusive taxes comprise Property tax, including vacant land tax, Professional tax, Entertainment tax and Advertisement tax. The revenue shared taxes include all the taxes on goods and services levied by the state government which comprise Value added tax (VAT), stamp duty, electricity, purchase tax, luxury tax, taxes on lottery, betting and gambling, entry taxes in lieu of octroi, etc. while user charges, trade licensing fee and development charges form a part of non – tax revenues.

Municipal finances - Issues and recommendations:

- **Property Tax**: Typically, the most important tax levied at local level is property tax. The responsibility of designing the property tax system in India rests with state governments, while ULBs are allowed to fix tax rates within a band and prepare a collection strategy. However, property tax is actually controlled by state governments. The High Powered Expert Committee (HPEC) for estimating the Investment Requirements for Urban Infrastructure Services (2011) pointed out that this effectively takes away the prime funding instrument from the control of the municipality as was evidenced in the last few years when Haryana and Rajasthan abolished/diluted their property tax in all cities of their states. The fact that states can take such a decision suddenly and arbitrarily creates political risk that can be destabilizing for the ULBs ability to access market finance. Thus, ULBs can be given the flexibility to fix the tax rate with respect to property tax on constructed buildings, subject to a floor specified under the law. This rate should not be changeable by state governments, though they can specify the rate band.

- **Stamp Duty:** While some states have abolished property tax levied by ULBs, they continue to derive significant revenues from stamp duty on transfer of property. It can be recommended that, a major portion of the stamp duty should be devolved to ULBs because it is their activities towards developing infrastructure which lead to increases in land values and consequently to registration of land and property, on which stamp duty is charged.

- **Motor Vehicle Tax**: Motor vehicle tax in almost all the states is with the state government, with Andhra Pradesh, Karnataka, and West Bengal being the exceptions. Hence, the erosion of tax revenue suffered by ULBs on this account can be reversed by all states sharing motor vehicle tax revenue with ULBs.

- **Lower average cost recovery**: A study shows that average cost recovery percentage of ULB’s in 2007-2008 was lowest in Amravati (Maharashtra) at 7.8% of total expenditure while it was highest in Palakkad (Kerala) with 55.2% of total expenditure.

Alternative ways to augment municipal resources: The following steps need to be initiated for augmenting revenue generation by the ULBs:

Debt financing: Debt financing has the advantage of bringing an element of discipline to the service provider. With an obligation to repay, ULBs are compelled to judiciously plan, design, and execute projects that can maximise revenues, minimise O&M cost, and generate a surplus over the O&M cost in a sustained manner throughout the lifespan of an asset. Grants, on the other hand, tend to impose soft budget constraints, thereby encouraging profligacy.

Public Private Partnerships: Public funds alone shall not be adequate for meeting investment needs in urban areas. Urban India needs innovative financing like market based funds and land based sources and public private partnerships (PPP).

Land as a Resource: Land is a good resource to generate revenue for the local bodies and should be explored by the ULBs to the extent possible. Sale of land is what can be considered on a wider scale to garner resources. Alternatively giving land on lease for a long time period to users is a variant that is being explored by a number of ULBs.

New Levies: New levies/cess should be levied to augment revenue resources such as drainage fee, parking fee, Hoarding fees, vacant land tax, development impact fee, etc.

Pooled Financing Medium and smaller municipalities are unable to take advantage of resources available in the capital market due to weak financial position and lack of capacity to prepare viable project proposals. A State level pooled financing mechanism is proposed for smaller and medium municipalities. The objective of a State level pooled finance mechanism is to provide a cost effective and efficient approach for smaller and medium sized ULBs to access the domestic capital markets for urban infrastructure and to introduce new institutional arrangements for mobilising Urban Infrastructure Finance. In this mechanism, the ULBs pool in all their projects together at the state level so as to come up to a sizeable issue to raise funds in order to meet their requirements. Also, Central Government has set up a Pooled Finance Development Fund (PFDF) to provide credit enhancement to ULBs to access market borrowings based on their credit worthiness through State-Level-Pooled Finance Mechanism. So far two pooled funds were structured in India as pilot projects.

A State level Pooled Financing Mechanism is working successfully in Tamil Nadu and Karnataka with the financial assistance from the United States Agency for International Development (USAID). This alternative way to raise funds should be further encouraged by the government.

Municipal Bond Markets

The advantages of using municipal bonds to finance urban infrastructure are increasingly evident in India. The Indian Bond Market is becoming vibrant. Ahmedabad Municipal Corporation issued a first historical Municipal Bond in Asia to raise Rs 100 crore from the capital market for part financing a water supply project. An illustrative list of ULBs/parastatals, which have been granted permission to issue Municipal Bonds, is given in the Table below:

Further recommendations:

a. A Government of India led initiative can be launched for creating a Regulatory Guidelines Handbook for Municipal Borrowings' through consultations with key stakeholders, within the next one year, dealing with:

• Regulations relating to lenders and lending instruments, which fall under the responsibility of the Government of India
• Regulations involving mixed or shared authority and responsibility between the national and state governments
• Regulations relating to rules regarding the ex-ante borrowing activities of municipalities and ex-post procedures relating to municipal default and insolvency;

Table 4: Tax Free Bonds: Urban Local Bodies/Parastatals which have been granted permission

Sr. No.	Name	Amount (Rs. in crore)	Date of Gazette of Notification
1	Ahmedabad Municipal Corporation	100.00	21.08.01
2	Hyderabad Municipal Corporation	82.50	04.03.02
3	Nasik Municipal Corporation	50.00	07.03.03
4	Visakhapatnam Municipal Corporation	50.00	29.12.03
5	Hyderabad Metropolitan Water Supply and Sewerage Board	50.00	29.12.03
6	Ahmedabad Municipal Corporation	58.00	16.03.04
7	Chennai Metropolitan Water Supply and Sewerage Board	42.00	24.03.04
8	Karnataka Water & Sanitation Pooled Fund Trust	100.00	20.08.04 (Revalidated during 2005-06)
9	Chennai Metropolitan Water Supply and Sewerage Board	50.00	23.03.05
10	Chennai Corporation	44.80	24.03.05
11	Ahmedabad Municipal Corporation	100.00	24.03.05
12	Nagpur Municipal Corporation	128.00	4.1.2007
13	Ahmedabad Municipal Corporation	150.00	8.3.2007 (Revalidated during 2007-08 for six months from 28.5.2007)*

Source: Ministry of Urban Development

b. State financial intermediaries can be set up in each state with a view to assisting ULBs to make use of capital markets for meeting their infrastructure investment requirements. It will help reduce transactions costs, particularly for smaller ULBs who, on their own, are unable to access capital markets. The Tamil Nadu Urban Development Fund (TNUDF) has been working as a financial intermediary for small cities and towns. A number of other states like Rajasthan, West Bengal, Karnataka, and Orissa are also in the process of establishing similar intermediaries. These entities can be set up in a PPP mode as in the case of the TNUDF.

c. In order to strengthen the municipal bond markets to support leveraging of funds for urban infrastructure, the fixed cap of 8% on annual interest on municipal bonds can be removed to allow market conditions to fix the interest rate and make the bonds attractive.

Role of credit rating agencies and ratings

In order to raise funds in the capital market it becomes mandatory to have a rating which is provided by the credit rating agencies. Hence, the urban local bodies also require a credit rating before raising funds from the market in order to gain investor confidence. These ratings are given on the basis of certain parameters such as economic factors, legal factors, financial factors, administrative factors and most important the viability of the project for which the fund is being raised.

Today not only the capital markets but also banks Lenders ask for Ratings. Ratings help the municipal bodies in multiple ways.

- To evolve and compare their own performance against others as well as themselves over a period of time. This is an independent view given based on financial soundness.
- These ratings help the corporations to assess their own progress over the years and hence act as an internal check for them even when they are not raising any funds from the market.
- It reveals the relative standing of the corporations and in turn the extent to which the projects in question can be financed on their own strength.
- It also marks the first step towards the ULBs approaching the debt markets to bridge the resource-need gap for the substantial ramp-up in capex envisaged under the mission.

International experiences:

The market for municipal bonds in India is almost non-existent unlike countries such as the US where this is the principal mode of financing urban infrastructure. Developing countries like South Africa, Hungary, Russia, and Mexico also have relatively well developed municipal bond markets. By contrast, the municipal bond market in India has been marked by very modest borrowing levels, which have further stagnated or declined over the past 5-6 years. However, U.S. has the largest market.

The sub – sovereign bonds market in the US remains the largest in the world. No other country has a market of comparable size and complexity. The market has grown rapidly. The largest owners of municipal bonds in the US are individuals, mutual and money market funds, insurance companies and commercial banks. Municipal bonds markets have been safe investments in the US with microscopic defaults rates compared to corporate securities. The impact of the current financial and economic crisis had some negative effects on the market. However, the industry had taken a hit because of the mortgage backed securities crisis, not because of the underlying quality of municipal issues.

Many other countries across the globe raised funds through municipal bond markets. The following are some of the examples:

- Canadian provinces such as **Quebec** and **Ontario** have sold their bonds in international markets for more than eighty years. Although municipal bonds in **Canada** are not exempt, they are popular financing vehicles for sub-sovereign governments. Canadian provinces have greater tax raising and policy making powers in comparison to several European local governments, where these powers are characteristically curtailed by the central government.

U.S Municipal bond market

In 1902, outstanding state and local government debt was US$2.1 billion or $27 per capita. By 1927 the amount had jumped to $14.9 billion-$125 per capita. Then there was a downturn because of the Great Depression and the onset of the First World War. After the end of that war, America was faced with a 15-year drought in capital spending, a significant growth in population and a major relocation from rural to urban areas. In addition, pent-up housing demand, the changing character of transportation and a shift in structures for manufacturing facilities, all combined to produce a huge demand for additional public and private facilities. In response to that demand, the level of state and local government debt rapidly increased. So while by the end of 1960 the amount was only $66 billion, by year-end 1981 the amount was over $361 billion - a 611 per cent increase over 21 years. By 1998, the amount stood at 1.3 trillion. There were approximately $3.7 trillion outstanding in municipal bonds by 2011 according to a quarterly U.S. Federal Reserve Flow of Funds release in December 2011.

U.S. Municipal Bond Market during financial crisis

The worries were spread by the announcement from Moody's in April 2009 that it had "assigned a negative outlook to the creditworthiness of all local governments in the United States," which was "the first time it had ever issued such a blanket report on municipalities." State and local finances remained under pressure but on the whole the municipal bond market had remained resilient. By year end 2011 municipal bankruptcies did not exceed the level of 2008 and 2009. However, it included bankruptcies, missed payments and use of reserve funds to service debt. Majority of the defaults remain in the small issue segment of ***unrated*** revenue debt obligations. In 2011, large bankruptcy filings were by Jefferson County, Alabama and Harrisburg, Pennsylvania (in both cases default history dated back to earlier years with the final denouement in 2011). Both filings were related to trouble emanating from certain bond offerings. At the end of 2011, there were continuing improvements in state and local tax collections due to increase in tax rates and charges. Yet more may be needed. For instance sales tax collection is at a 45 year low, due in part to internet sales but, in greater measure due to greater use of services not covered by sales tax regime. Reduction of public employees, outsourcing of services and service sharing were factors that helped governments keep costs down and avoid more severe financial actions such as defaulting on outstanding debt or declare an intention to seek bankruptcy.

- **Europe** features the largest number of issuers, issuances and Dollar volume outside the US. From 1990 to 2007. For the same timespan, the average size of issuances increased significantly from 101 billion dollars to 176 billion dollars. Moreover, the total dollar volume of issuances nearly increased twofold from 118 billion dollars to 333 billion dollars. The major European issuers in the last eight years include **Germany, Spain, Italy, Finland, United Kingdom, France**, and **Sweden**. Germany issued the large majority of sub- sovereign debt and with 770 issues over the last eight years, was responsible for 82% of the total municipal debt issued in Europe from 2000-2007.

- Several Eastern European countries such as the **Russian Federation, the Slovak Republic, Slovenia, and Romania** have entered the municipal bond market to finance large infrastructure projects.
- **Rio de Janerio** was the first city in **Latin America** to successfully issue a bond in the international capital markets. The city issued a bond in July 1996 to refinance its existing debt. The bond was unsecured despite the fact this was the municipality's first public international debt issue.
- Issuers in Asia include **Japan, Malaysia, and South Korea**. In case of **China**, the current legal environment prevents sub – sovereign government from raising finance through municipal bonds. Tight budgetary laws, introduced by the government to prevent the recurrence of municipal bond defaults that had taken place in the 1990's, effectively prohibit the issuance of municipal bonds. However, Chinese authorities have expressed increased interest to modify regulations and promote municipal debt issues to finance local services.
- Other middle and low – income countries, including Mexico, Brazil, South Africa, India, and the Philippines, have made experiences with municipal bonds.The World Bank and USAID have played a particularly important role in promoting municipal bond issuances through the provision of technical advice, loan guarantees and sometimes loan conditionalities.
- Municipal development funds (MDFs) a concept similar to that of bond banks was set up in the Philippines, Thailand, and Indonesia. The objectives of MDFs were to reduce political interference in project selection and financing, provide a more responsive administration, finance economically and financially viable projects, and lend at market rates. The longer-term objective was usually for these institutions to access private sector savings and become intermediaries between private capital markets and local governments.
- Republic of Korea's Korea Infrastructure Credit Guarantee Fund (KICGF), was formed in 2005, which provides guarantees for construction firms' financing of social infrastructure through local bank loans. Municipalities may issue "compulsory bonds" for rail and certain other types of infrastructure and they are purchased by a special public fund financed by special taxes on vehicle purchases and by construction licenses. The fund is managed by Korea Credit Guarantee Fund (KODIT), established in 1976 as the sole provider of credit guarantee system under Korea Credit Guarantee Fund Act of 1974.

Development of Municipal bonds Market in developing countries:

Certain supply side and demand side factors have been identified that may contribute to the development of sub- sovereign bonds markets in developing countries. The supply side factors are broadly classified as:

- Increases in sub- sovereign financing needs
- Improved capacity of municipalities to manage and support debt.
- Low borrowing costs
- Regulatory and legal environments conducive to municipal borrowing and
- Credit enhancements.

The demand side factors that promote the market for sub – sovereign debt include:

- Financial sector composition and depth
- Issuer familiarity and confidence
- The ability to trade securities on secondary markets and
- Acceptable expected returns

Need for municipal bonds in India

Public sector financing needs have increased sharply. This is mainly attributed to rapid urbanisation that has led to greater demand for municipal investments in infrastructure. Secondly, fiscal decentralisation strategies have shifted much of the responsibility for infrastructure and utility investment to local governments. This trend has posed new challenges for local government. While the needs for sub – sovereign investments have increased, fiscal subsidies from central government to municipalities have declined. Moreover, the revenue sources for sub-sovereign governments have remained restricted to immobile tax bases such as property taxes. Lastly, the disappointing experiences with privatisation of essential services in the 1990s have increased popular demand to keep the responsibility for local service provision, in particular water, with public providers. Consequently, the majority of public service provisions remain in the hands of public sector. Hence, the desire to retain the municipal ownership of essential services may further increase municipal infrastructure financing needs. Hence, there is huge potential for Sub – Sovereign bond markets in future.

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