Municipal Bonds – A Must for Better Infrastructure
GOCIP Bonds an Option; Expected Market Size INR450bn

Municipal Bonds – A Necessity: Municipal bonds are a necessity to improve India’s urban infrastructure as the hard budget constraints of both central and state governments are likely to reduce the quantum of grants to urban local bodies (ULBs), says India Ratings and Research (Ind-Ra). Increasing urbanisation and ever growing demand for better services are exerting pressure on already crumbling urban infrastructure services. The Fourteenth finance commission (14FC) has increased grants to ULBs significantly. Although this will help ULBs to improve their finances, a lot is to be done to improve their financial position.

Need Innovative Mode of Financing: Ind-Ra believes adopting an innovative mode of financing is the need of the hour. ‘Government Citizen Partnership (GOCIP) Bonds’ where citizens invest in the bonds floated by ULBs to improve urban infrastructure and urban civic services could be one such option. By citizens subscribing to bonds floated by their own city’s ULB, they will be a part of city improvement process. This way they can keep a check on the functioning of their ULBs and optimum use of resources.

Reforms and Governance: Lack of transparency and information disclosure is one of the major bottlenecks for poor appetite for municipal bonds in India. 14FC has recommended a performance grant for ULBs, which depends on the submission of audited annual accounts, increase in own revenue and annual publication of benchmarks relating to basic urban services. Ind-Ra believes regulations such as monitoring of funds raised through bonds on a half-yearly basis, clarity on debt redemption reserve and debt roll-over and the auditing of bank account for funds raised and escrow account with earmarked revenue will bring in transparency and confidence and improve governance in municipal debt market.

Need for Specialised Municipal Entities: Pooled finance entities and specialised entities such as National Capital Region Planning Board (NCRPB) and Mumbai Metropolitan Region Development Authority (MMRDA) can leverage their acts and balance sheets to raise money from capital market at competitive rates. These entities are managed by professionals and are better placed to satisfy demand of capital markets. Ind-Ra believes floating of such entities at state level - pooled finance entities for small ULBs and structures such as NCRPB/MMRDA for larger ULBs - can help in raising municipal bonds and reach a market size of around INR450bn in near future.

Some Fine Tuning Required: Ind-Ra while welcoming the draft regulations on municipal bonds believes certain regulations especially on default, buy back of security, security for secured debentures, debt redemption reserves and listing conditions can be relooked or fine-tuned. Some conditions if applied in the present form may be detrimental for the creation of a stable municipal bond market in India. Security and Exchange Board of India (SEBI) is of the opinion that a corporate municipal entity (CME) is a company acting as a non-banking financial company (NBFC) under the debenture redemption reserve requirement according to Companies Act, 2013. If the Reserve Bank of India (RBI) treats it as an NBFC, regulatory regime for CME will change. Thus, a clarification from RBI on treatment of CME will help.

Dismal Service Delivery and Weak Finances: The quality of urban civic service delivery in Indian cities is far from satisfactory. While ULBs are mandated to provide a large number of services, their revenue base is low. Total revenue of Indian ULBs is too low (0.9% of GDP) compared with 6% in South Africa and 7.4% in Brazil. The huge resource gap (annual income of municipalities: INR125.97bn and expenditure: INR139.97bn in FY03) between revenue and expenditure is mainly responsible for the dismal delivery of urban civic services.
The Context

Urban areas are catalyst to economic growth, as a major part of industrial and service sector activities are concentrated in and around them due to better infrastructure and proximity to consumers with higher purchasing power. The proportion of urban areas in gross domestic product (GDP) increased to 52% in FY05 from 37.7% in FY71 and projected to increase further to 62%-63% in FY10 (source: Mid-term appraisal of Eleventh Five-Year plan, Planning Commission, Government of India).

The migration of rural population to urban areas in search of livelihood, education and health services is exerting pressure on urban areas and urban civic services. India’s urban population grew 31.8% in the last decade (2001-2011) in relation to the national average of 17.64% and rural growth of 12.18% (source: www.censusindia.gov.in). A report by the Ministry of Urban Development and National Institute of Urban Affairs in 2011 estimated that urban population is expected to rise to 600 million by 2031 from the current estimated population of 377 million (31% of total population).

Increasing urbanisation is posing challenges to policymakers with ever increasing demand for urban civic services. The quality of urban civic services in Indian cities is much below the desired levels. According to the Census 2011, only 32% of India’s population receives treated water and 18.6% of urban households do not have any access to any sanitation facilities at home.

Constitution Amendment

The 74th Constitution Amendment Act, 1992, gave constitutional recognition to ULBs along with the constitutional right to exist and Twelfth Schedule to the constitution provided a recommended list of local functions. Through the constitutional amendment, state governments were required to amend municipal laws to empower ULBs with such powers and authority as may be necessary to enable them to function as institutions of self-governance.

Municipal Finances

After the constitutional amendment, ULBs have been entrusted with several responsibilities. Data related to revenue and expenditure of municipal corporations is a big handicap for framing any policy and intervention by the central and state governments. The size of municipal sector in India is small; it constitutes 2%-3% of the combined central and state government revenue compared with 20%-35% for developed countries (Source: Financing Strategies for Urban Infrastructure: Trends and Challenges, Speech by H R Khan, Deputy Governor, Reserve Bank of India, July 2013). In relation to the services supposed to be offered by ULBs, their revenue size is small.

ULBs provide a number of services on behalf of state governments. The cost of provision of these services should be transferred to ULBs regularly and be revised annually based on the actual expenditure incurred. Most of these funds will become part of municipal funds and be used for general expenditure of ULBs. Funds transferred to ULBs for specific purposes should be kept in separate accounts (within a larger ambit of municipal funds) and be used for earmarked purposes. This will help ULBs track the cost-benefit of individual municipal services.

12FC observed the sorry state of information related to local bodies — most states do not have credible information on the finances of their local bodies. It further said that local bodies would continue to need funding support for building data base and maintenance of accounts. The finance commission also recommended that states may assess the requirement of each local body in this regard and earmark funds accordingly out of the total allocation.

12FC suggested at least 50% of the grants-in-aid provided to each state for ULBs should be earmarked for the scheme of solid waste management through public-private-partnership. Municipalities should concentrate on the collection, segregation and transportation of solid waste. The cost of these activities whether carried out in-house or outsourced could be met through grants.
According to 12FC, the annual income of all municipalities was only INR125.97bn in FY03 as against the expenditure of INR139.97bn (Source: Annexure 8.9, Report of 12FC). It is precisely for this reason the quality of urban civic services provided by ULBs is far from satisfactory.

To a large extent, ULBs depend on grants from upper tier governments (central and state) for revenue. Between FY03 and FY09, the average proportion of own revenue of ULBs was slightly more than half of total revenue. Total revenue was a miniscule 0.9% of GDP and much lower than in South Africa of 6% and Brazil of 7.4% (Source: High Powered Committee Report on Indian Urban Infrastructure and Services, March 2011). The proportion of own revenue/total revenue declined to 53% in FY08 from 63% in FY03, highlighting the sorry state of municipal finances.

Successive finance commissions have allocated grants to ULBs for improvements in service delivery, governance and administration. However, the utilisation of these grants at best was 87.6% during the Eleventh Finance Commission award period.

<table>
<thead>
<tr>
<th>Commission</th>
<th>Period</th>
<th>Allocation (INRbn)</th>
<th>Utilised (INRbn)</th>
<th>Utilisation rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tenth</td>
<td>FY96-FY00</td>
<td>10.00</td>
<td>8.34</td>
<td>83.4</td>
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<tr>
<td>Eleventh</td>
<td>FY01-FY05</td>
<td>20.00</td>
<td>17.52</td>
<td>87.6</td>
</tr>
<tr>
<td>Twelfth</td>
<td>FY06-FY10</td>
<td>50.00</td>
<td>40.25</td>
<td>80.5</td>
</tr>
<tr>
<td>Thirteenth</td>
<td>FY11-FY15</td>
<td>231.11</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Fourteenth</td>
<td>FY16-FY20</td>
<td>871.44</td>
<td>n.a.</td>
<td>n.a.</td>
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</tbody>
</table>

14FC has recommended INR174.29bn as performance grant and INR697.15bn as basic grants to ULBs. The basic grant is provided as unconditional grants and is intended to improve basic civic services. The performance grant is based on submission of audited annual accounts, increase in own revenue and annual publication of benchmarks relating to basic urban services.

**Service Delivery and Investment Requirement**

To say the least, the quality of service delivery in Indian cities is far from satisfactory. In most cities, service delivery is not up to the benchmark even for existing population. Ever increasing urban population due to natural population growth and migration to urban areas in search of livelihood is exerting immense pressure on crumbling urban civic services. Moreover, citizens’ demand for better civic services is increasing with every passing day.

Investment requirements for the urban sector are huge. The High Powered Expert Committee on Indian Urban Infrastructure and Services (2011) estimated an INR991.87bn investment for water supply, sewerage, solid waste and storm water drains during 12th plan period. The same for urban transport including urban roads, mass transit, traffic management system, street lighting and capacity building was estimated as INR2.88tn.

The government in December 2005 initiated JNNURM for a period of seven years with an outlay of INR660.85bn. The objective of JNNURM was to improve urban infrastructure, reforms and governance. JNNURM was a grant-led programme with grants both from central and state governments. Central government grants crowded in investment from ULBs and state government, and total commitment for urban projects at FYE12 was INR12.4tn (Source: Twelfth Five-Year Plan).
State of Service Delivery – Key Indicators

Water Supply
According to the 2011 census, 70.6% of urban population is covered by individual connections, compared with 91% in China, 86% in South Africa and 80% in Brazil. The duration of water supply in Indian cities ranges from one to six hours, compared with 24 hours in Brazil and China and 22 hours in Vietnam. Per capita supply of water in Indian cities ranges from 37 litres per capita daily (lpcpd) to 298 lpcpd for a limited duration, while Paris supplies 150 lpcpd continuously and Mexico 171 lpcpd for 21 hours a day. Most Indian cities do not have metering for residential water connections. 70% of water leakages occur from consumer connections. Due to the malfunctioning of water meters, non-revenue water accounts for 50% of water production in India compared with 5% in Singapore.

Sanitation
Even a partial sewerage network is absent in 4,861 cities and towns in India. Almost 50% of households in cities such as Bangalore and Hyderabad do not have sewerage connections. As per the 2011 census, about 13% of urban households do not have access to any form of latrine facility and defecate in the open. The Census 2011 also revealed that about 37% of urban households are connected with open drainage and another 18% are not connected at all. Less than 20% of the road network is covered by storm water drains. According to the report of the Central Pollution Control Board 2009, only about 20% of sewage generated was treated before disposal in Class I cities and Class II towns (as per 2001 census). According to the board’s report of 2005, about 115,000 metric tonne of municipal solid waste is generated daily in the country. However, scientific disposal of the waste generated is almost non-existent.

Public Transport
Public transport accounts for only 27% of the urban transport in India. The share of public transport fleet decreased to 1.1% in 2001 from 11% in 1951. In 2009, only 20 out of 85 Indian cities with a population of 0.5 million had public bus services.

Affordable Housing
The Technical Group on the Estimation of Housing Shortage projects estimated that the total shortage of dwelling units in urban areas was 18.78 million units and projected slum population in India was 94.98 million in 2012. As against this, the number of dwelling units sanctioned under JNNURM in was 1.6 million units. At the same time the supply of reasonable affordable housing by the private sector has remained inadequate.


Financing Urban Infrastructure
Hitherto, urban infrastructure in Indian cities was generally funded by grants from the central and state governments and borrowings from financial institutions such as LIC, HUDCO and commercial banks. NCRPB in the national capital region and MMRDA in the Mumbai region are two specialised organisations financing urban infrastructure projects in these two regions.

Municipal bonds, although a cheaper source of funding for ULBs, have not been popular in India. The Bangalore Municipal Corporation was the first municipal corporation to raise INR12.5bn from bonds with a state guarantee in 1997 and Ahmedabad Municipal Corporation was first municipal corporation to issue bonds without a government guarantee in January 1998. The government of India issued guidelines for the Pooled Finance Development Fund Scheme for small ULBs in November 2006 to raise money from the bond market; even issuance under the scheme has remained very low. In aggregate, only INR13.53bn bonds issuance under tax-free, taxable and pooled bonds schemes has been done.

Only INR13.53bn issuance of municipal bonds (tax-free, taxable and pooled finance).
JnNURM has pushed ULBs to undertake reforms including accounting reforms and to migrate to accrual-based double-entry accounting system from cash-based single entry accounting system. Major issue with Indian ULBs is people’s perception about them, which is reflected in demand for these bonds issued in the past. In past, many bonds were not able to raise targeted amount due to lack of demand from investor community. Public issuances require a number of disclosures and preparation of business plan, where Indian ULBs lack seriously.

There is a lot of potential of exploiting the bond market for implementing existing projects under JnNURM. Of the INR637.9bn worth infrastructure being created under its urban infrastructure and governance (sub-mission I) scheme, 36.46% of the required funds are being arranged by ULBs, 47.18% are being provided by the central government as grants and remaining by state governments. According to the latest release order by the Ministry of Finance (up to August 2014), the central government has released 72.54% of its approved commitments, ULBs still need to rope in around INR66bn based on Ind-Ra’s estimates. While 82.59% of the funds’ appetite lies with investment grade ULBs (rated ‘BBB-‘ and above), 31.23% of the funds are needed by BBB category cities alone.

Figure 2

<table>
<thead>
<tr>
<th>AA Category</th>
<th>A Category</th>
<th>BBB Category</th>
<th>BB Category</th>
<th>B Category</th>
<th>C Category</th>
<th>Unrated</th>
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<tbody>
<tr>
<td>Total approved cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>ULB’s expenditure till date</td>
<td></td>
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<td></td>
<td></td>
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<td></td>
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<tr>
<td>ULB’s future funding need</td>
<td></td>
<td></td>
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</table>

Source: JnNURM, Ind-Ra estimates

Ind-Ra believes the Indian municipal bond market has a potential to reach INR450bn in near future. There is a pressing need of few benchmark issuances, to be followed by a series of issuances.

Regulatory Framework for Municipal Bonds

The government at different time intervals has issued guidelines for municipal bonds to improve urban infrastructure and give a fillip to municipal bond market. According to the guidelines of Ministry of Urban Development in February 2011, tax-free municipal bonds should carry a maximum per annum interest rate of 8%. These bonds compete with systematic investment plans and other products offered by the mutual fund industry. During the time of low inflation and a low interest rate regime, tax-free bonds are attractive investment options; however, during a high interest rate regime, these are not a very attractive investment options leading to a lower investor’s appetite.

In March 2015, SEBI rolled out a new regulatory framework for issuing of debt securities by municipalities. ULBs are allowed to issue both general obligation and revenue bonds. However, public issuance is limited to revenue bonds only. In case of a private placement, an issuer can issue general obligation or revenue bonds. The issuer has to contribute at least 20% to the project cost either from internal accrual or grants. Only ULBs with an investment grade rating (rated ‘BBB-‘ or higher) are allowed to do a public issuance. A minimum tenor of three years, no default in last 365 days and positive net worth are some other conditions for a municipal bond issuance.
Figure 3

Evolution of Draft Guidelines for Municipal Bonds

- World Bank’s report on regulatory framework for municipal borrowing (October 2011)
- Ministry of Urban Development (MOUD) committee reviewed the progress of implementation of the recommendations of World Bank report and recommended SEBI to draft new disclosure and regulatory requirements for the issuance and listing of municipal bonds (July/August 2013)
- Agenda item on the formulation of a framework for the issuance of municipal bonds and disclosure norms to Corporate Bonds and Securitization Advisory Committee (CoBoSAC) meeting (October 2013). Subcommittee formed.
- Subcommittee of MoUD, MoF, merchant bankers and municipality submitted report to CoBoSAC (October 2014)
- Key proposals of sub-committee accepted by CoBoSAC:
  - A separate framework should be laid down for the issuance and listing of debt securities by ULBs or municipal bodies, and SEBI may frame separate regulations
  - The framework should provide for the issuance of debt securities by ULBs or municipal bodies to the public as well as privately placed municipal bonds that are proposed to be listed on stock exchanges
  - Guidelines should be based on the tax-free municipal bonds guidelines (February 2001)
- Concept paper by SEBI (March 2015)
- Draft Guidelines

Source: SEBI

Ind-Ra welcomes the new regulatory framework. The requirement of funds to improve urban infrastructure are enormous, as estimated by the 12th plan. However, it will take a while before India will see a deep municipal bond market. While the agency welcomes the regulatory push for municipal bonds, the major issue with municipal debt issuance is information disclosure by ULBs meeting capital market requirement.

Ind-Ra believes the bonds floated by a CME with a separate escrow account for the servicing of municipal bonds with earmarked revenue as well as for usage in defined projects or a set of projects would protect investors’ interest. Appointment of a monitoring agency such as public finance institutions or nationalised banks to monitor funds in escrow accounts in case of ULBs and a debenture trustee for corporate municipal entities will increase the confidence of investors in these bonds.
Conditions of either a guarantee from the central/state government or a structured payment mechanism (issuer deposit money at least 10 working days before due date) for the listing of unsecured bonds will certainly help in the deepening of the municipal bond market. Additional conditions such as a financial viability certificate for projects and a separate project implementation cell are also likely to bring in transparency in the functioning of ULBs and to improve the appetite for these bonds.

The proposal of issuance of revenue bonds is a good idea. The logic behind revenue bonds is to tap project revenue for debt servicing. In this case, the levying of user charges, frequency of revisions and sufficiency of revision are important. The recovery of user charges be it water or sanitation charges for ULBs or user charges on any public or social goods provided by the government is very low. A number of committees at national level had recommended the user charges from the public or social goods offered by various governments should at least cover operations and maintenance (O&M) expenditure of the asset. However, in real practice user charges are not even sufficient to recover O&M expenditure. Municipal bonds can take off, if user charges on assets are revised at regular intervals and in right amounts.

Average cost recovery from municipal services has remained poor. According to the High Powered Expert Committee report on Urban Infrastructure and Services, user charges cover less than 50% of the O&M cost of basic infrastructure services in India. Major reason for this is a wide-spread leakage and in-frequent and in-sufficient revisions in user charges.

With hard budget constraint limiting grants from upper tier governments and rising demand for urban civic services, municipal bonds are the only option to raise low-cost resources for urban infrastructure. Some innovative financing options can help ULBs to improve the quality of infrastructure.

**Problems in New Regulatory Framework for Municipal Bonds**

Although forming a new regulatory framework for municipal bonds is a step in the right direction, Ind-Ra believes some regulations needs some fine tuning/re-look, which can help in the broadening of the municipal bond market.

**Regulation 4: Eligible Municipalities**

The definition of default in draft regulation is different from the definition of default prescribed by SEBI in its guidelines for credit rating agencies.

**Definition of Default in Draft SEBI (Issue and Listing of Debt Securities by Municipality) Regulations, 2015**: Interest and/or principal amount remaining overdue for a period of more than 90 days.

**Definition of Default in Guidelines for Credit Rating Agencies**: Non-payment of interest or principal amount in full on the pre-agreed date; a credit rating agency shall recognise a default at the first instance of delay in the servicing of interest or principal on the rated debt instrument.

The new definition of default in the draft SEBI regulations for municipal bonds is pragmatic. A clarification from the regulator is required whether this definition is applicable only for municipal bonds and loans or will be applied uniformly across all capital market transactions including loans from commercial banks and other financial institutions. In RBI’s regulation for bank loans, standard default definition of SEBI is applied.

**Regulation 18: Buy Back**

The regulation provides for an option for buy-back of debt securities at face value. This rules out the option of a premature buy-back of deep discount bonds, as this will affect municipal finances adversely.

**Regulation 20: Creation of Security for Secured Debentures**

The regulation allows unsecured debentures to be listed if they are backed by a state or central
Municipal Bonds: Lessons from US

United States is in the forefront of issuance of municipal bonds and utilising it for creation of urban infrastructure. Some of its model with suitable modification according to Indian requirement, regulation, constitution and laws could be replicated in India to improve demand and appetite of municipal bonds. Most structure in US revolves around leveraging additional revenue/taxes accruing to ULBs due to increased development. The money thus raised was used to finance social housing and create additional infrastructure.

government guarantee or have a structured payment mechanism. Ind-Ra believes the guarantee should not be limited only to the state or central government; a guarantee by financial institutions should also have been included in this. At the same time, the scope for a partial credit guarantee should also have been given.

Regulation 23: Debenture Redemption Reserve

CME is proposed to create a debenture redemption reserve according to the Companies Act, 2013. SEBI in its explanations to the query raised on initial guidelines (page 133) provided a rationale based on CME acting as an NBFC and raising funds for on-lending to municipalities. NBFCs regulations are with RBI; a clarification from RBI on treatment of CMEs will be helpful.

Regulation 24: Continuous Listing Conditions

Sub regulation 4 deals with movements in rating levels. If a rating is downgraded by two notches or more, the issuer is required to explain reasons for the downgrade and take preventive steps to recover rating and cash flows. Such conditions are not applied on corporate bond issuers. Ind-Ra believes this will be detrimental to a municipal bond issuance.

Municipal Bonds – Way Forward

The regulator’s new regulatory framework for issuing of debt securities by municipalities is another step to popularise municipal bonds in India. Although on the face of it, the proposal is good, the success of the regulation in widening and deepening of the municipal bond market remains limited.

India is a classic case of under-investment in the municipal space. Some states especially Maharashtra due to Octroi/cess/local body tax are sitting on a large pile of cash surplus and do not need additional funding to improve urban civic services. But ULBs are not investing, whereas cities are crying for investments in urban infrastructure. Conversely, the cities, which need funds for investments, do not have a strong cash surplus or a strong credit profile to raise funds from the market.

Under JnNURM, 65 cities were assigned credit ratings. The basic idea behind JnNURM was to encourage ULBs to tap the bond market to raise funds for investments in urban infrastructure. However, barring a couple of ULBs, none has tapped the capital market. The need of the hour is some benchmark bonds from financially strong ULBs, which would help in improving investors’ demand/appetite for municipal bonds.

Looking at the cost recovery of urban services, it would be an inefficient way to raise bonds and service them from municipal funds. Revenue bonds will however address this issue to a certain extent. Although SEBI’s proposals will certainly impact the municipal bond market, still we need a number of innovative steps to improve demand for municipal bonds. An innovative way of making municipal bonds attractive to investors could be ‘GOCIP Bonds’ — where citizens invest in bonds to improve infrastructure of their own city. As bond holders, citizens can become a part of building/improving city. A proper awareness campaign for these bonds and ULBs being the third tier government are likely to generate interest of people for these bonds. Citizens as investors of ‘GOCIP Bonds’ can keep a tab on ULBs and ask questions on efficient use of their money. This is likely to build pressure on ULBs to bring in transparency, and improve efficiency and governance.

The government should increase its focus on pooled finance. While bigger and better ULBs could go to the bond market to raise finances, smaller ones can take the pooled finance route and access the bond market to raise funding at a lower rate. The creation of a pooled finance entity at the state level is a precondition for pooled finance bonds. Although a number of states have floated pooled finance entities, the scheme has only taken off in Tamil Nadu and Karnataka. Tamil Nadu has already done three bond issuances under this scheme, in other words some benchmark is already in place. Rest of the states could take benefit from Tamil Nadu experience. In case of a financial crisis at ULB, pooled finance entities generally have the...
Need specialised municipal entities to raise funds from market.

Pooled finance entities for smaller municipalities.

NCRPB and MMRDA like entities to leverage their balance sheet strength to raise funds at competitive rates.

ULBs must reforms and improve transparency and information disclosure to tap capital market.

power to tap state finance commission devolutions to ULBs (those ULBs who have taken loan from pooled finance entity) and thus avoid a default on their commitment to bond holders.

The role played by specialised entities such as NCRPB and MMRDA is similar to a pooled finance vehicle’s. NCRPB leveraging its balances sheet strength (built on grants from the central government and government of National Capital Territory of Delhi) has raised money from the capital market. The central government support to NCRPB is now being leveraged to raise money from multilateral donor agencies for improvements in project appraisals and monitoring systems and lending to project execution authorities from NCR. NCRPB has also funded the ULB proportion of JnNURM expenditure of few ULBs. MMRDA has also leveraged its ownership of land bank in Mumbai and provides cheaper finances to ULBs from Mumbai Metropolitan Region.

Compared with an individual ULB, specialised entities such as NCRPB, MMRDA and pooled finance entities are managed by professionals and are in a better position to satisfy demand of capital markets in terms of governance, transparency and information disclosure. Floating of a number of such specialised entities at state level - pooled finance entities for small ULBs and NCRPB or MMRDA kind of structure for large ULBs - can help in increasing demand for municipal bonds.

However, in line with the success of any scheme or programme, the success of municipal bonds totally depends on how quickly we reform our municipalities in terms of governance, transparency, information disclosure and improve efficiency. Mere increasing user charges or tariff is not the solution; the efficiency of service delivery has to improve to change investors’ perception and appetite for municipal bonds.
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