Listing of Municipal Bonds

Why in news?

According to the RBI's maiden report on municipal finances, listing of municipal bonds in the stock exchanges can pave the way for developing the much-needed secondary market for municipal bonds in India.

What are Municipal Bonds?

- Municipal bonds are also known as '**muni bonds'**.
- It is a debt instrument that municipal corporations and other associated bodies in India issue them.
- Whenever the local government body wants to raise funds, they issue these bonds.
- These bonds come with a fixed maturity period and investors earn a fixed interest rate on them.
- The municipal corporations provide returns on these bonds either from property tax or professional tax collected or other specific projects' revenues.
- In 2015, the Securities and Exchange Board of India (SEBI) circulated guidelines for urban local bodies or local government bodies to raise funds by issuing these bonds.

What are the issues with municipal corporations?

- **Own revenue generation** - The own revenue generation capacity of municipal corporations is declining over time.
- Out of 18 functions to be performed by municipal bodies in India, less than half have a corresponding financing source.
- **Dependence on upper tiers** - The dependence on the devolution of taxes and grants from the upper tiers has risen.
- Urban local bodies in India are amongst the weakest globally in terms of fiscal autonomy with elaborate State government controls on their authority.
- **Urban infrastructure** - The availability and quality of essential services for the urban population in India have consequently remained poor.
- The rapid rise in urban population density calls for better urban infrastructure and requires greater flow of financial resources to local governments.

Municipal revenues/expenditures in India have stagnated at around 1% of GDP whereas it accounts for 7.4% of GDP in Brazil and 6% of GDP in South Africa.

What has the RBI report recommended?

- The bond financing route needs to be explored to meet the needed capex expansion plans.
- The municipal corporations mostly rely on borrowings from financial institutions and loans from Centre/ State to finance their resource gaps in the absence of a well-developed market for municipal bonds.
- Property tax reform and development of a vibrant municipal bond market may provide a boost to the municipal finances.
- Policies to improve the environment for financial investment through efficient regulation, greater transparency, and better governance can help nurture a vibrant municipal bond market.
- Listing municipal bonds in the stock exchanges can pave the way for developing the secondary market for municipal bonds in India.
- Urban local bodies need to improve collection efficiencies in respect of property tax, user charges, lease rentals, advertisement tax and parking fees.

What are the pros and cons of investing in municipal bonds?



References

1. The Hindu Businessline | Listing of Muni bonds should be explored
2. Scripbox | Municipal Bonds in India

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