Materialising Municipal Bonds

What is the issue?

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Beyond focussing on national and State budgets, forward planning is important at the municipal level as well.

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What are the recent developments in this regard?

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- Pune Municipal Corporation raised Rs.200 crore in June 2017 for a water supply project.
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- Greater Hyderabad Municipal Corporation raised Rs.200 crore recently to fund their road project.
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- Municipal bond market has seen an issuance of around Rs.2,000 crore since the first bond issue two decades ago.
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- While regulators and the Government are keen on more such bonds, the markets are yet to share the enthusiasm.
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Why is the municipal bond market unattractive?

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- **Information** - Among the many factors withholding the development of municipal bonds market is the lack of information infrastructure.
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- The RBI publishes annually a report on the State budgets analysing the fiscal position of State governments based on primary data.
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- But notably, there is no such compendium on the budgets of local bodies giving real data on the overall receipts or expenditure.

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- **Reports** - The available data if any comes from the Comptroller and Auditor General (CAG) audit reports.
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- These give a consolidated picture of the municipal finances.
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- However, even the latest available CAG reports on local bodies date as far back as 2014-15.
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- **Primary Source** - The primary source of data is the website of the municipal corporation.
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- But the governance of the local bodies in some states leads to doubting the credibility of such reports.
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- The details of service delivery or the properties assessed for tax are not published in the budget.
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What are the concerns with municipal bodies?

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- **Accounting** - Very few municipalities adhere to the national/State municipal accounting manual (NMAM/SMAM).
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- Even among the mega cities, Bengaluru and Kolkata present budgets that are not compliant with the NMAM.
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- NMAM mandates presenting budget information both function-wise (type of service rendered) and account code-wise (nature of revenue or expenditure item).
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- However, most municipal corporations present the data only account code-wise.
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- Also, the chart of accounts is fluid in many municipalities as they are still transitioning to the accounting manual.
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- **Accounting quality** - The accounting quality largely varies and is not linked to the size of the corporation.
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- The most common errors are the confusion between revenue and capital

items, and wrong account coding in the budget document.
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- **Disparities** - The reporting units are not the same in the budget data of various corporations.
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- Most municipal bodies present it in rupees lakh, and some in rupees thousands and rupees.
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- The differences in data from the municipal budget documents make it hard to compare data across municipals.
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What is the way forward?

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- Building a national municipal data base ought to be a priority.
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- **Integrated database** with operational, economic data and financial data is essential.
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- Making it user-friendly is the first step to building an **information infrastructure** for the municipal bonds market.
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- It facilitates **analytics** on the operational efficiency of the corporation, the potential for revenue growth, the debt bearing capacity, etc.
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- Presently, the lender weighs in the tacit or explicit support of the state government while **lending** to a municipal corporation.
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- A national database can promote a culture of **credit analysis** among lenders to municipalities, to make informed decisions.
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- The increased levels of **transparency** will attract **public private partnerships** in infrastructure delivery and improve **ease of doing business.**
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Source: BusinessLine

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