

# **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.
- $\bullet$  While regulators and the Government are keen on more such bonds, the markets are yet to share the enthusiasm.  $\mbox{\sc h}$

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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.
- The RBI publishes annually a report on the State budgets analysing the fiscal position of State governments based on primary data.
- 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.
- 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 codewise.

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- Also, the chart of accounts is fluid in many municipalities as they are still transitioning to the accounting manual.
- Accounting quality The accounting quality largely varies and is not linked to the size of the corporation.
- The most common errors are the confusion between revenue and capital

items, and wrong account coding in the budget document.

• **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.

• **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.
- Presently, the lender weighs in the tacit or explicit support of the state government while **lending** to a municipal corporation.
- A national database can promote a culture of credit analysis among lenders to municipalities, to make informed decisions.
- 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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