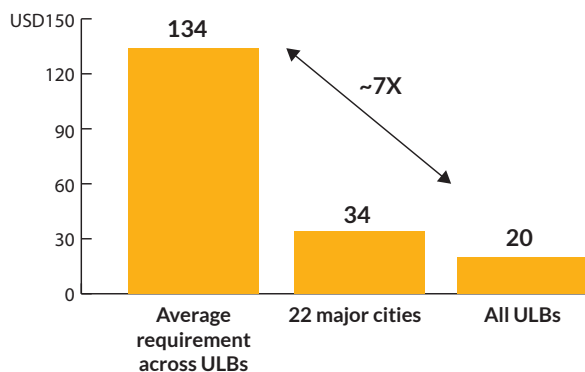


ROADMAP FOR MUNICIPAL BOND MARKETS IN INDIA

Over 450 million people live in urban India. By 2030, this will grow to about 600 million¹, further aggravating the pressure on the already reeling city infrastructure. To meet the rising demand, India needs an estimated ~INR 55 lakh crores (USD 1.2 trillion) in urban capital expenditure between 2010 and 2030^{2,3}.

Annual per capita urban capex for India's ULBs (in USD^{3,4,5})



Unfortunately, city agencies – urban local bodies (ULBs⁶) and parastatal utilities – are financially weak today. Their two main sources of financing (own-source revenues⁷ and intergovernmental transfers) are insufficient to bridge the large infrastructure financing gap. Hence, it is imperative for these agencies to tap market financing to help make our cities livable. Long-term debt, especially municipal bonds, has been one of the viable mechanisms to finance infrastructure in several developed and emerging market economies. City agencies in India, however, remain highly underleveraged and have a limited track record of investing in infrastructure development.

WHY HAVE MUNICIPAL BONDS NOT YET TAKEN OFF IN INDIA?

Over the last 20 years, India has issued ~INR 2700 Crores⁸ (USD 386 million) worth of municipal bonds. This is insignificant compared to the INR 120+ lakh Crores (USD 1.7 trillion) Indian bond market⁹. The weak financial position, as well as poor governance and management of city agencies have limited their ability to issue bonds, and reduced investor trust and confidence. The critical root causes for municipal bonds not taking off in India are predominantly around limited issuer strength – low ability, accountability and autonomy of city agencies; followed by the lack of an enabling environment.

Issuer Ability	Issuer Accountability	Issuer Autonomy
<p>Inability to:</p> <ul style="list-style-type: none"> Create financial plans and statements Enhance own-source revenue Have predictable grants and transfers Conceive and implement projects efficiently Issue and service debt 	<p>Lack of:</p> <ul style="list-style-type: none"> Prudent fiscal and accounting practices High-quality city development plans Performance management Citizen engagement 	<p>Limited:</p> <ul style="list-style-type: none"> Independence to create long-term plans and develop infrastructure Mandate to raise revenue and taxes
Enabling Environment		

Unconducive environment for:

- Greater debt uptake and reduced dependence on grants by city agencies
- Information sharing and interaction between investors and city agencies
- Incentives to investors (especially retail) for subscribing to municipal bonds

- United Nations Population Division. 2018. *World Urbanization Prospects*.
- Unless specified, exchange rate taken at USD 1 = INR 70. In this instance, USD 1 equals INR 46, considering estimates were of 2008-09 period
- McKinsey Global Institute. 2010. *India's urban awakening: Building inclusive cities, sustaining economic growth*. McKinsey & Company.
- Janaagraha Centre for Citizenship and Democracy. 2017. *Annual Survey of India's City-Systems (ASICS)*.
- Sinha, Suveer. 2018. *Combating the challenges of urbanization in emerging markets: Lessons from India*.
- Refers to municipal or local governments in urban areas (e.g., municipalities) pursuant to the 74th Constitutional Amendment
- Tax and non-tax revenues raised by the city agencies
- Brookings India and Brookings Institution. 2016. *Building Smart Cities In India; Public records*.
- CCIL (July 2018), Outstanding Government bonds data; SEBI (September 2018), outstanding corporate bonds data

HOW DO WE COLLECTIVELY SOLVE FOR THIS?

Particularly since 2015, the Government of India has signaled its intent and support for cities to issue bonds. To translate intent into practice, key stakeholders – ranging from senior bureaucrats to investors – unanimously stated that systemic reforms are required to move India from one-off bond issuances to building a viable, long-term bond market. Our study estimated that total municipal bond issuances of at least INR 14,000 crores (USD 2 billion) in the next five years can be an aspirational target for sustainable municipal bond markets¹⁰. A USD 2 billion market would establish a consistent track record of municipal bond issuances, institutionalizing it as a reliable mechanism of financing infrastructure.

We identified several systemic solutions that can help build sustainable municipal bond markets over the next five years. Five of these are core to developing financially and organizationally capable city agencies:

1. Strengthen accounting and financial management practices
2. Improve quantum and stability of revenues
3. Improve quality and execution of projects and spatial plans
4. Strengthen HR policies, processes and practices
5. Increase devolution of functions and finances to city agencies

We recognize that these reforms – though critical – require strong political will and long lead times. Therefore, in parallel, market building reforms would prepare willing city agencies to leverage debt for their growing urban infrastructure needs. We prioritized four solutions that seek to improve issuers' strength and the enabling environment (basis the root causes identified above), and thereby catalyze municipal bond markets towards the USD 2 billion aspiration¹¹.

ROADMAP FOR MARKET BUILDING SOLUTIONS

Solution 1: Provide end-to-end support to select capable city agencies to issue bonds

Objective	Description			
Larger number of city agencies leverage market financing	Empanel/establish specialized entity to provide end-to-end support to select city agencies in municipal bond issuances, including accounting and financial management, evaluating debt options, issuing bonds, and managing projects			
Roadmap				
I Advocate for empanelment/ establishment of specialized entity	II Conceptualize nature, scope and structure of entity	III Build new entity or select existing firms to provide support	IV Identify criteria and initial set of city agencies for entity to support	V Support select city agencies, and create manuals for others

Solution 2: Create a marketplace for information sharing between investors and city agencies

Objective	Description			
Greater transparency by city agencies, and trust built with investors and citizens	<ol style="list-style-type: none"> 1. Create an online portal that captures up-to-date city agency information (e.g. financials/budgets, infrastructure plans, service delivery metrics) 2. Set up a forum to connect investors and city agencies (through activities such as convening, road shows for infrastructure financing) 			
Roadmap				
I Secure buy-in from relevant government stakeholders	II Conceptualize the mandate and form of the portal and forum	III Build database and support initial set of city agencies	IV Launch forum by building awareness and establishing interactions	V Make requisite policy changes to ensure compliance and accountability

10. Based on benchmarking municipal bond market sizes in select emerging economies (top-down estimate), and calculating potential issuances of a representative ticket size by a defined number of city agencies each year (bottom-up estimate)

11. An additional solution to incorporate measures to deepen retail market for municipal bonds was developed, but not prioritized

Solution 3: Create or repurpose Special Purpose Vehicles (SPVs) to facilitate uptake of bonds

Objective	Description
Greater number of ULBs, including small- and medium-sized ULBs, can responsibly raise debt	<ol style="list-style-type: none"> 1. Establish or repurpose a state SPV to support small- and medium-sized ULBs for pooled bond issuances 2. Additionally, or alternatively, establish or repurpose a professional on-lending SPV to assist eligible ULBs in accessing debt
Roadmap	
I Evaluate need, timing for pooled bond and/or on-lending SPV	II Fast-track revision of pooled bonds regulatory guidelines
III Determine nature, scope and structure of SPV	IV Repurpose or establish pooled bond and/or on-lending SPV
	V Support ULBs in preparation and debt uptake; also, publish learnings

Solution 4: Establish guidelines and incentives to encourage responsible debt uptake

Objective	Description
Improve fiscal management and incentivize capable city agencies to raise debt responsibly	<ol style="list-style-type: none"> 1. Enact regulations for Fiscal Responsibility and Budget Management (FRBM) of city agencies, and provide supporting guidelines and templates 2. Reorient the government's urban development schemes (such as AMRUT, Smart Cities Mission) to promote responsible debt uptake by city agencies
Roadmap	
I Create model FRBM guidelines for city agencies across India	II Obtain consensus of government and regulatory agencies
III Enact, implement FRBM through new or existing laws	IV Reorient infra schemes to incentivize responsible uptake of debt
	V* Provide interest subvention for responsible uptake of debt

*Can be performed independent of Steps I-IV as well

CALL TO ACTION

There is a dire need to plan for and substantially invest in the infrastructure of our cities to meet the aspirations of nearly half a billion people. In global quality of living standings, India's highest ranked cities – Hyderabad and Pune – stand jointly at 142 out of 231 cities¹². Market-based mechanisms, including municipal bonds, could finance infrastructure and help improve the quality of living in cities. This calls for stakeholders across the urban development sector to galvanize on two parallel reform tracks. First, a set of fundamental financial and institutional strengthening reforms across city agencies; and second, some targeted, market-building solutions that prepare both the city agencies and investors to participate in market-based financing mechanisms. Municipal bonds – and debt, more widely – can contribute to bridging India's infrastructure financing gap, and can be a viable funding mechanism for a wide range of capable city agencies.

12. Mercer. 2018. "Quality of Living City Ranking." 20th Quality of Living Ranking.

About the study

The Bridgespan Group and Janaagraha, supported by Omidyar Network, collaborated on this study to develop a roadmap for municipal bond markets in India. This executive summary captures the key insights and conclusions of the study. Over 50 stakeholders – across government, regulators, investors, donors and experts – were consulted in the process.

Central Government	Hardeep Singh Puri and Kunal Kumar (<i>Ministry of Housing and Urban Affairs</i>); KV Pratap (<i>Ministry of Finance</i>); Brajendra Navnit (<i>Prime Minister's Office</i>)
State Government	Vikram Kapur (<i>Tamil Nadu Generation and Distribution Corporation</i>); Dr Vishal Ravi (<i>Government of Karnataka</i>); Swatantra Kumar Singh (<i>Government of Madhya Pradesh</i>)
City Agency	Raj Cherubal (<i>Chennai Smart City Limited</i>); V Umashankar (<i>Gurugram Metropolitan Development Authority</i>); Rajat Bansal (<i>Raipur Municipal Corporation</i>); Gaurava Mishra (<i>Raipur Smart City Limited</i>); Dana Kishore, Jayaraj Kennedy and Vijay Kumar (<i>Greater Hyderabad Municipal Corporation</i>)
Regulator	Sumeet Kaur Kapoor (<i>PFRDA</i>); SC Khuntia (<i>IRDA</i>); Barnali Mukherjee (<i>SEBI</i>); Sangita E (<i>RBI</i>)
Investor	Vikas Khemani and Ajay Manglunia (<i>Edelweiss Securities</i>); NS Kannan, Puneet Nanda and Arun Srinivasan (<i>ICICI Prudential Life Insurance</i>); Amitabh Chaudhry and Prasun Gajri (<i>HDFC Life Insurance</i>); Ankur Shah (<i>HDFC - Pension Management Company</i>); Nikhil Joshi and Ankit Bhatnagar (<i>Kotak Mahindra Bank</i>); V Srinivasa Rangan and Harini Anand (<i>HDFC Limited</i>); Navneet Munot and Rajeev Radhakrishnan (<i>SBI Mutual Funds</i>)
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Multilaterals and Donor	Roland White (<i>World Bank</i>); Yuri Afanasiev and Karanraj Chaudri (<i>United Nations Development Programme</i>); Vikas Verma (<i>Michael & Susan Dell Foundation</i>); Roopa Kudva, Tracey Austin and Bharath Visweswariah (<i>Omidyar Network</i>)
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Janaagraha Centre for Citizenship & Democracy

Janaagraha Centre for Citizenship and Democracy is a Bangalore based not-for-profit institution that is a part of the Jana group. Janaagraha's mission is to transform quality of life in India's cities and towns. It defines quality of life as comprising quality of infrastructure and services and quality of citizenship. To achieve its mission, Janaagraha works with citizens to catalyze active citizenship in city neighbourhoods and with governments to institute reforms to City-Systems.



The Bridgespan Group

The Bridgespan Group is a global nonprofit organization that collaborates with mission-driven leaders, organizations, philanthropists, investors, and corporations to break cycles of poverty and dramatically improve the quality of life for those in need. In India, The Bridgespan Group is based in Mumbai.



Omidyar Network

Omidyar Network is a philanthropic investment firm dedicated to harnessing the power of markets to create opportunity for people to improve their lives. Established in 2004 by eBay founder Pierre Omidyar and his wife Pam, the organisation has committed more than US\$ 1 billion to innovative for-profit companies and nonprofit organisations to catalyse economic and social change. In India, Omidyar Network focuses on helping the hundreds of millions of Indians in low-income and lower-middle-income populations, which we define as ranging from the poorest among us to the existing middle class by working across multiple areas, including: Digital Identity, Education, Emerging Tech, Financial Inclusion, Governance & Citizen Engagement and Property Rights.

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