

SMART CITIES: ROLE OF PRIVATE CAPITAL IN FINANCING M U N I C I P A L INFRASTRUCTURE

EVENT REPORT

An initiative supported by:

Roundtable on



Date | Thursday 23 November 2017

Venue | Mumbai Cricket Association (MCA), Bandra-Kurla Complex, Mumbai

TIME	AGENDA
15:30 – 15:40	WELCOME ADDRESS • Vidya Shah, CEO, EdelGive Foundation
15.40 – 15.50	SETTING THE CONTEXT • Srikanth Viswanathan, CEO, Janaagraha
SESSION 1:	Job creation and India's Cities: Economic Productivity, Infrastructure and Financing
16:00 – 17:00	PANEL DISCUSSION • Dr. Ashima Goyal, Member, PM EAC • Neelkanth Mishra, MD & India Equity Strategist, Credit Suisse • Praveen Chakravarty, Visiting Senior Fellow, IDFC Institute • Vikas Khemani, President & CEO, Edelweiss Securities Ltd • Vivek Aggarwal, Commissioner, Urban Development and Environment, Govt. of Madhya Pradesh <i>Moderated by: Manisha Natarajan, Group Editor, Real Estate & Urban Development, CNBC</i>
SESSION 2:	Making Municipal Bonds work in India
17.10 – 17.20	SETTING THE CONTEXT Krishan Dhawan, CEO, Shakti Sustainable Energy Foundation
17:25 – 18:10	PANEL DISCUSSION • Kunal Kumar, Commissioner, Pune Municipal Corporation • Navneet Munot, ED & CIO, SBI Mutual Fund • Rajesh Mokashi, MD, CARE Ratings • Sandeep Batra, ED, ICICI Prudential Life Insurance • V Balasubramaniam, MD & CEO, India International Exchange <i>Moderated by: Manisha Natarajan, Group Editor, Real Estate & Urban Development, CNBC</i>
18:10 - 18:15	VOTE OF THANKS Ajay Manglunia, EVP & Head-Fixed Income, Edelweiss
18:15	• HIGH TEA

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Introduction

The Smart Cities Mission (SCM) of the Government of India has resurfaced interest in Municipal Bonds in public discourse. Raising private capital lies at the heart of the SCM. The Government of India is therefore pulling out all stops to facilitate issuances of municipal bonds. SEBI issued new regulations on issuance of municipal bonds in early 2014. The Union Ministry of Urban Development (MoUD) has listed credit rating as one of the five transformative reforms in the urban sector (the other four being moving to a trust and verify approach, formulating land titling laws, value capture financing and improving professionalism in urban local bodies).

In June 2017, Pune became the first smart city to issue municipal bonds through a Rs 200 crore issuance. The Prime Minister of India has called for at least ten cities to issue municipal bonds this year, and the Government of India is touting this as India's biggest municipal bonds program.

Since the first municipal bond issuance in the mid-1990s, less than Rs 2,000 crores of issuances have happened in the municipal bond market in India. There are a variety of challenges that are preventing the municipal bond market from taking off in India, ranging from poor financial management in India's municipalities (aka urban local bodies) to lack of required talent to absence of a deep long-term bond market in India to lack of federal tax exemption etc. However, poor financial position of India's municipalities remains the core issue. The combined receipts of all municipalities in India is estimated to be less than Rs 150,000 crores, with less than a third of this amount estimated to be from own sources of revenues. On the other hand, estimates suggest that between USD 800bn-1 trillion would be required as capital investment in infrastructure and services in our cities over a 20 year period. There is clearly space for raising private capital.

Edelweiss Financial Services Limited and Janaagraha Centre for Citizenship and Democracy seek to jointly establish thought leadership by focussing on core reform agendas which need to be addressed as a prerequisite to a functioning municipal bond market in India. As a first step we hosted a roundtable titled "Smart Cities: Role of private capital in financing municipal infrastructure".

The Roundtable

A roundtable was held in Mumbai on the 23rd of November with key stakeholders from central and state governments, select municipalities, credit rating agencies and the full range of financial services institutions that actively engage in the capital markets to draw focus on the need for capital at the municipality level and the roadmap to tap municipal bonds to address this need. The object of the round table was to actively engage key stakeholders on core reform agendas necessary to catalyse the municipal bond market in India, focussing on yet not limited financial management reforms in municipalities.

The roundtable was a three and half hour event covering two topics in two sessions

- i. Job creation and India's cities: Economic productivity, Infrastructure and Financing and
- ii. Making Municipal Bonds work in India

Panel 1

Job creation and India's cities: Economic productivity,
Infrastructure and Financing



Panelists (L to R)

- Vivek Aggarwal, Commissioner Urban Development and Environment, Govt. of Madhya Pradesh
- Dr. Ashima Goyal, Member, Prime Minister's Economic Advisory Council
- Praveen Chakravarty, Visiting Senior Fellow, IDFC Institute
- Vikas Khemani, President & CEO, Edelweiss Securities Ltd
- Neelkanth Mishra, MD and India Equity Strategist, Credit Suisse

Moderated by: **Manisha Natarajan**, Group Editor, Real Estate & Urban Development, CNBC

Context

- India's urban story needs to be focused sharply on job creation and economic growth. All middle income and high income countries in the world have made their transitions by managing urbanization well. There is no reason to believe India will be an exception.
- In India, tens of millions of jobs will need to move from agriculture into manufacturing and services over the next few decades, to enhance economic productivity. Already, millions of citizens migrate from villages to cities for jobs.
- However, the current state of infrastructure and services in our cities is impeding economic productivity and stifling investments and job creation. The Central and State Governments are both grappling with this challenge.
- Even as there is thick action in the urban space -
 - » Outlays for urban development have grown significantly across 14th Finance Commission grants (Rs 87,144 crores), JnNURM (Rs 120,000 crores over 7 years), Smart Cities Mission (Rs 50,000 crores over 4 years), Swachh Bharat Mission – Urban (Rs 14,626 crores) and AMRUT (Rs 50,000 crores over 5 years).
 - » New cities are taking shape: from GIFT city in Gujarat to Amaravati (and Sri City) in Andhra Pradesh to Naya Raipur in Chhattisgarh, besides new cities proposed on industrial corridors, such as the DMIC.
 - » Some states are exploring satellite cities around larger metropolitan areas, with the purpose of investments and jobs in mind, besides that of balanced urban development; while most states have not conceived comprehensive state level urban agendas, many of them are investing significantly in urban infrastructure.
- Yet, there is a huge shortfall in capital expenditure on infrastructure and services in cities. Central and state governments may not have the fiscal bandwidth to fund this requirement.



We need to create pathways for the government, the private sector and civil society to work together. I believe municipal finance lends itself well to such a partnership.

Vidya Shah

CEO, EdelGive Foundation

Key takeaways from the panel discussion

- We as a nation must revisit the definition of 'Urban' as per our Census in order to draw greater focus to urbanisation and urban development. We must also rethink the way we look at our cities and instead of encouraging migration into large cities, we must build several small cities with better infrastructure and opportunities.
- The narrative around urbanisation has changed substantially over the last three years in terms of availability of funds, change in priorities and ideas on how cities must be run.
- Before looking for means of financing, cities must primarily build 10 to 30 year development plans. Infrastructure projects must be executed with a degree of foresight.
- In terms of institutional design, we as a nation inherited a centralised system from the British. The 74th Amendment to the Constitution attempted to address this issue. However, the States have not embraced it in true spirit. Today, on account of multiplicity of decision makers, several projects are stalled or delayed. However, the practitioners in the panel were of the opinion that systemic issues such as these can be fixed.
- World over, 3/4th of revenue of urban conglomerates comes from property taxes. However, in India we are significantly under collect property tax and that is where the entire focus must be.
- Without a steady stream of revenue, our municipalities will not be able to access external sources of funding. The dependence on Central and State Grants is also due to the fact that some revenue streams such as octroi and entry tax have been subsumed by the state and is now being routed as grants.
- Further, in GST, when there is a central GST and a state GST, we should assess the need for a municipal GST portion to it.



Given that a lot of large corporates are sitting on huge sums of CSR money, the municipalities could come up with a list of projects that can be funded by such CSR funds.

Dr. Ashima Goyal

Member, PM EAC



In aspects such as smart facilities, in 10 years' time, India will have 100 odd cities with infrastructure that will be away ahead of several major cities in the world like California, Madrid"

Vivek Aggarwal

Commissioner, Urban Development and Environment, Govt. of Madhya Pradesh



Panel 2

Making Municipal Bonds work in India



Panelists (L to R)

- Sandeep Batra, Executive Director, ICICI Prudential Life Insurance
- Rajesh Mokashi, MD, CARE Ratings
- Kunal Kumar, Commissioner, Pune Municipal Corporation.
- Navneet Munot, ED& CIO, SBI Mutual Fund
- V Balasubramaniam, MD & CEO, India International Exchange

Moderated by: **Manisha Natarajan**, Group Editor, Real Estate & Urban Development, CNBC

Context

- The financial position of India's municipalities is weak, with aggregate revenues less than Rs 120,000 Crores (approx.) ($\leq 1.5\%$ of GDP compared to $> 6\%$ in Brazil, South Africa etc.), of which less than one-third is from own sources of revenues
- The investment required in urban infrastructure over the 20-year period of 2011-2031 is estimated at Rs 39.2 lakh crores at 2009-10 prices.
- The Smart Cities Mission (SCM) of the Government of India has resurfaced interest in Municipal Bonds in public discourse.
- The Union Ministry of Housing and Urban Affairs (MoHUA) has enlisted various schemes and programmes to create economically vibrant, inclusive, efficient and sustainable urban habitats with improved quality of life, assured services and efficient governance.
- Cities will therefore need to raise capital on the strength of their own balance sheets to meet their infrastructure and service delivery benchmarks
- However, since the first municipal bond issuance in the mid-90s, less than Rs 2,000 crores of municipal bonds have only been issued in India; urban PPPs too have not scaled.
- As part of Smart Cities Mission, SPVs are being created and municipalities are being credit rated in the anticipation that the municipal bond market in India will take off. The central government has also had SEBI lower the bar for municipalities.
- SEBI has already provided the regulatory push by introducing Regulations on the issue and listing of debt securities by municipalities in 2015. Further they have listed credit rating as one of the five transformative reforms in the urban sector (the other four being moving to a trust and verify approach, formulating land titling laws, value capture financing and improving professionalism in urban local bodies).
- In June 2017, Pune became the first smart city to issue municipal bonds through the Rs 200 crore issuance with an assigned rating of AA+ from multiple rating agencies.



There is a need to proactively address the growing environmental concerns through sustainable infrastructure facilities and proven technical solutions. In this context, mobilising investments for civic infrastructure development assume immense importance.

Krishan Dhawan

CEO, Shakti Sustainable Energy Foundation

Key takeaways from the panel discussion

- The mega cities have always been ahead of the game in terms of status of books of accounts and finances. However, as part of the AMRUT scheme it is evident that the smaller cities are lagging behind as only 50% to 60% have been investment grade credit rating. The cities with less than investment grade rating cannot approach the bond market as it will be construed as a high risk issuance. Therefore, we could also think outside the bond market and access the more regular banking channels of the debt market like bank financing.
- The rating of the corporation plays a major role in helping access the bond market. However, apart from rating, a strong project plan is also essential in building confidence among investors.
- Step one for issue of a municipal bond is identifying the right project that needs to be funded, followed by a strong debt management strategy. Pune Municipal Corporation raised capital of Rs 200 crores through Municipal Bonds in June 2017, achieved the impossible, when user charges for water was raised after a period of 15 years in 2015. The corporation aims to convert the 'water fund' into a self-sustaining, revenue generating project.
- Support from political leadership is essential to place confidence in the investors that contracts will be honoured. The experience of toll roads in Maharashtra has not been encouraging.
- In addition to traditional revenue sources like property tax and advertising land redevelopment is another potential source of raising revenue, as Pune is doing with its river front project.
- Under GST, some taxes could have been devolved to Municipalities to boost their own revenues
- To encourage Municipal Bonds in India, the Central Government could introduce a front end subsidy to Municipal Bonds, at least to the first 10 cities that approach the bond market. Similar to the US Department of Treasury, the Centre can also assist in building the debt capacity of cities.



The reason that the Municipal Bond market is strong in United States is because of its tax incentives, they do not receive state/central grants like in India, and have grown to be dependant on the bond market, thus forcing them to keep their books in order.

Navneet Munot

ED & CIO, SBI Mutual Fund



Lionel Messi, once candidly said that he became an overnight sensation in 17 years. Similar is the story of the bond issue of Pune Municipal Corporation, for which the work began about 10 years ago.

Kunal Kumar

Commissioner, Pune Municipal Corporation

About Janaagraha Centre for Citizenship and Democracy

Janaagraha is a Bengaluru based non-profit founded by Swati Ramanathan and Ramesh Ramanathan in 2001.

Janaagraha's mission is to transform quality of life in India's cities and towns and it defines quality of life as comprising quality of citizenship and quality of infrastructure and services. It works with citizens to catalyse active citizenship in city neighbourhoods and with governments to institute reforms to city-systems (what is commonly referred to as urban governance). Civic Learning, Civic Participation and Advocacy and Reforms are Janaagraha's three major strands of work to accomplish its mission. Municipal Finance reforms are an integral part of Janaagraha's City-Systems framework and therefore a focus reform agenda.

Janaagraha is part of the Jana Group, India's largest non-profit group committed to fixing India's cities. Other institutions in the Jana Group include Janalakshmi Financial Services, a micro finance company which is transitioning into a small finance bank, Janaadhar, an affordable housing company, and Jana Urban Space Foundation, a non-profit working on spatial planning and design.

About Edelweiss

The Edelweiss Group is one of India's leading diversified financial services company providing a broad range of financial products and services to a substantial and diversified client base that includes corporations, institutions and individuals. Edelweiss's products and services span multiple asset classes and consumer segments across domestic and global geographies. Its businesses are broadly divided into Credit Business (Wholesale Credit comprises of Structured Collateralized Credit to Corporate, Real Estate finance and Distressed Assets Credit. Retail Credit comprises of housing finance, loan against property, LAS, SME and Agri Finance, and Rural Finance), Non-Credit Business (Capital Markets, Wealth Management, Asset Management and Agri Services) and Life Insurance. The Balance Sheet Management Unit operations manage the liquidity and Balance Sheet. Edelweiss has an asset base of over INR 32,000 crore with revenue of INR 5,316 crore and net profit of INR 414 crore for FY16.

Its consistent performance is evidenced by a PAT (excluding insurance) CAGR of 38% over the last four years. The group's research driven approach and proven history of innovation has enabled it to foster strong relationships across all client segments. The group has sizeable presence in large retail segment through its businesses such as Life Insurance, Housing Finance, Mutual Fund and Retail Financial Markets. It serves its 887,000 strong client base through 6,227 employees based out of 237 offices (including nine international offices) in 122 cities. Together with over 4,500 strong network of Sub-Brokers and Authorized Persons, Edelweiss group has presence across all major cities in India.



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