Municipal Bonds

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What are Municipal Bonds?

Municipal bonds, or muni bonds, are issued by local bodies like municipal corporations to raise money for public projects, such as to construct roads, bridges, schools or other infrastructure, and are repaid from returns generated by such projects or tax revenue.

In other words, a municipal bond is a debt security issued by a state, municipality or county to finance its capital expenditures, including the construction of highways, bridges or schools.

An initiative of the Ministry of Housing and Urban Development

The Ministry of Housing and Urban Development is for the first time **creating a database of audited annual accounts for those local bodies in line with international standards.** Efforts are being made to attain higher credit ratings as it helps attract investors.

SEBI Guidelines for Municipal Bonds

Recently SEBI announced relaxation in norms for 'Muni Bonds' to help smart cities and other registered entities working in areas of city planning and urban development work like municipalities to raise funds through issuance and listing of their debt securities.

New norms;

- Under the new norms, the watchdog would **do away with requirements like the appointment of a monitoring**

agency, filing of viability certificate or Detailed Project Appraisal Report, setting up of a separate project implementation cell, maintenance of 100% asset cover with the specification of resources and mandatory backing of state or central government.

- After representations from the industry and market participants for amending its ILDM Regulations to expand this market segment, Sebi had initiated a public consultation process in June proposing certain amendments.
- Taking into account the feedback, the regulator has now decided to amend the regulations to provide **greater flexibility in raising funds and for strengthening protection for investors.**
- Under the current regulations, this fund-raising route is only available to the issuers defined as a municipality under the relevant articles of the Constitution of India or the corporate municipal entities set up as a subsidiary of a municipality for the purpose of raising funds for a specific municipality or a group of those.
- **The proposed changes would now allow issuance of 'Muni Bonds' also by other entities like urban development authorities** and **city planning agencies** that perform functions similar to a municipality such as planning and execution of urban development projects.
- Besides, SEBI has decided to allow this route for other structures where a group of municipalities pool their resources together to jointly raise funds through issuance of bonds. These structures are generally known as **Pooled Finance Development Funds.**
- In addition, the amended regulations would **permit raising funds through Muni Bonds by Special Purpose Vehicles (SPVs) set up for implementing smart city projects.**
- The regulator has now decided that any entity incorporated under the Companies Act, or any statutory

body or board, authority, trust or agency established or notified by an Act of Parliament or an Act of the State Legislature or any SPC notified by the state or central government or any structure set by a state government under the Pooled Finance Development Fund would be eligible to issue Muni Bonds. This would be subject to the condition that the entity concerned carries out one or more functions of a municipality.

- SEBI would also amend rules relating to accounting, auditing and disclosure of financial statements to take into account the expanded list of eligible entities and the requirements of such entities to get their accounts audited by the Comptroller and Auditor General of India (CAG) and approved by various authorities.
- Besides, the regulator would relax norms pertaining to creation of escrow accounts and do away with requirements for appointing a monitoring agency and establishing a separate project implementation cell.
- Also, the existing regulations allow issuance of only revenue bonds with a minimum tenure of three years and maximum of five years, if it is a public issue. This clause has been proposed to be dropped.

Issues of Municipal Bonds

Root causes for muni bonds not taking off in India are around limited issuer strength – low ability, accountability and autonomy of city agencies – followed by the lack of an enabling environment, according to a report by Janaagragha, a Bengaluru-based organization working closely with local bodies.