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Creditworthiness Assessment for Urban Local Bodies in India

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inspiring change

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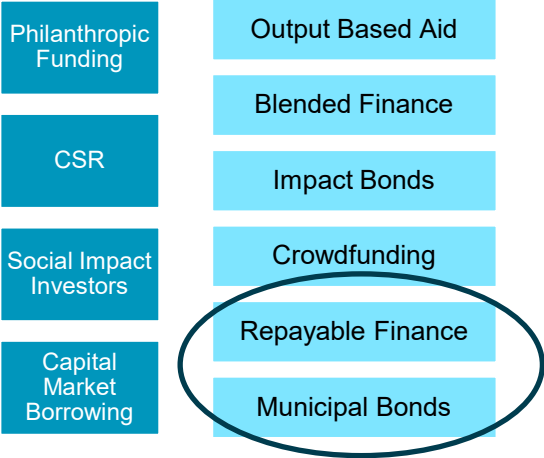
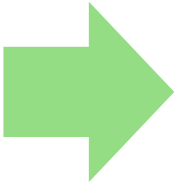
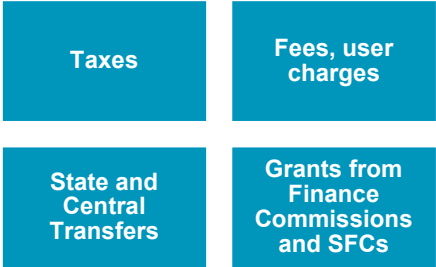
CEPT
UNIVERSITY

Achieving SDG targets will also require additional financing

Urban WASH infrastructure has been generally financed through public funds however, there are budget constraints

Not enough to meet SDG financing gaps

Own sources and transfers

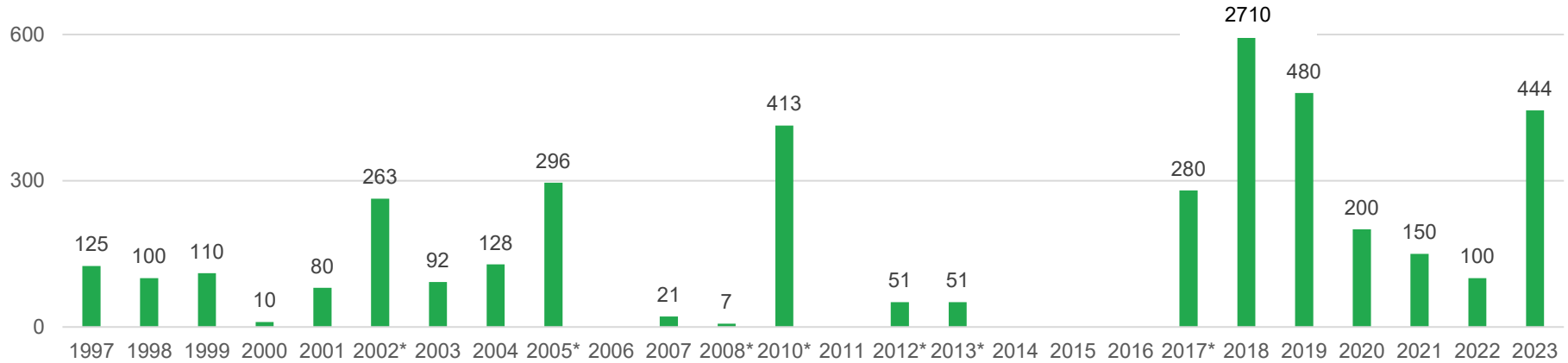


To attract such investments, service providers will need to be creditworthy and build confidence of the debt market investors and of the private sector

Source: Financing India's urban infrastructure needs. World Bank, 2022

Indian cities have issued municipal bonds over the years..

Issuance of 33 Municipal bonds worth INR 6,031 crore in India (1997-2023)



- Between **1997-2010**, urban local governments have issued **25 municipal bonds**. Between **2011 and 2016**, there were **no bond issuance possibly due to crowding out by large public funding available to cities** . From 2017, bond issuance was revived with the subsidy incentives by the Government of India. **9 bonds were issued during 2017 to 2023.**
- **All municipal bonds were done with credit rating from Indian CRAs. These are expensive – and, cities would benefit from an understanding of their creditworthiness on a regular basis**

Source: www.sebi.gov.in, www.mohua.gov.in, 2018, AMRUT 2.0 operational guidelines, MoHUA, 2021, Discussions with CFAs of Gujarat and Maharashtra, 2023

Creditworthiness assessment framework using publicly available data

Creditworthiness Assessment

Framework for cities

Cities can use **creditworthiness self-assessment tool** before approaching CRA for a formal credit rating

Framework uses both **financial performance indicators and WASH operational performance indicators**

It uses **publicly available datasets** which are annually updated and accessible on web-based portals

WASH and administrative Data – **Performance Assessment System** (www.pas.org)

Balance sheets and Audited account statements from cityfinance.in and [city websites](http://citywebsites)

Annual self-assessment and improvement approach for cities

Review of credit rating frameworks by different CRAs (CRISIL, India Ratings, CARE Ratings)
Kenya Creditworthiness Index

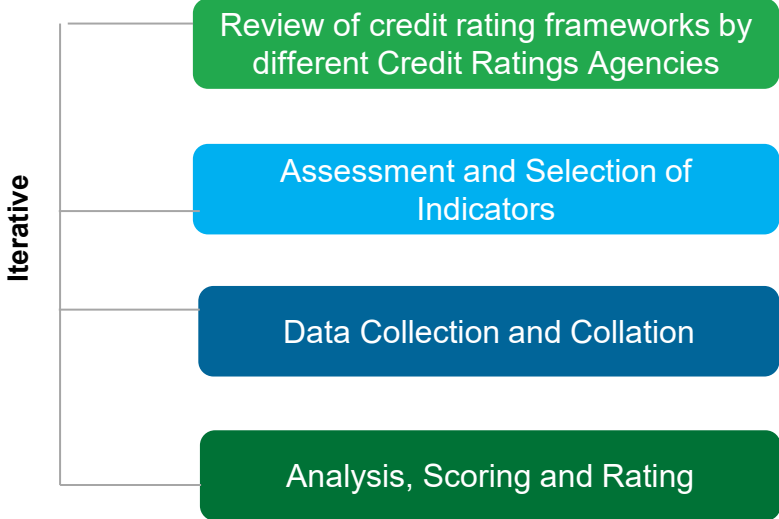
FINANCIAL

- Income Ratios** Translate **economic base** into municipal revenues and capacity to levy, collect taxes and user charges.
- Expense Ratios** City's ability to **manage fixed expenses** and understand overspending or underspending.
- Operating Ratios** Adequacy of revenues to meet **operational expenses** support **additional debt servicing**.
- Debt Servicing Ratios** **Adequacy of municipal cash flows** to meet debt servicing requirements in a timely manner.
- Leverage Ratio** Current leveraging of ULB, net worth and revenue profile and **estimating borrowing capacity**
- Liquidity Ratio** **Measure cash and other current assets** to meet short-term business and financial obligations.
- Size of revenues** Size of income, expenditure and their growth rate over the years.

SERVICE LEVEL

- WASH Service Levels** Assesses performance of city in **WASH service delivery-coverage, treatment, and financial sustainability**.
- Accounting Quality and Transparency** Reflects the **timeliness** of providing audited information in public domain.
- Human Resources and Adequacy of Staff** **Staffing levels** in relation to service delivery requirements
- Complaint redressal mechanisms** City's ability to **redress complaints**

Annual self-assessment and improvement approach for cities



PAS Rating Scale	Rating	Creditworthiness	Grade of Investment
Above 90	PAS AAA	Highest level of creditworthiness	Investment Grade
70-90	PAS AA	High level of creditworthiness	
60-70	PAS A	Adequate level of creditworthiness	
50-60	PAS BBB	Moderate level of creditworthiness	
40-50	PAS BB	High level of Risk	Below Investment Grade
30-40	PAS B	Higher level of Risk	
20-30	PAS C	Highest level of Risk	
Less than 20	PAS D	Not creditworthy	

Note: Rating is derived based on review of various CRAs

Covers 30 Indian cities across ten states with varied population size

Tested across 30 Indian cities across ten states



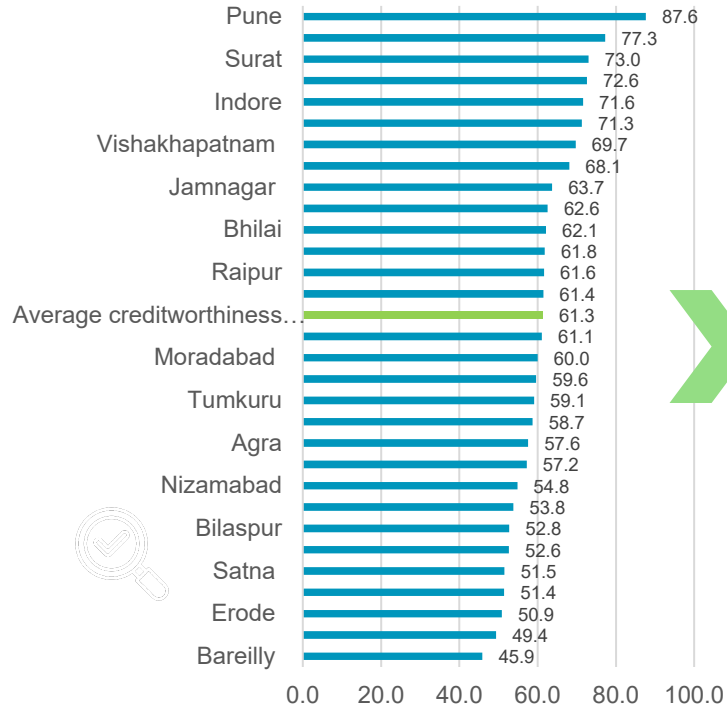
Three sets of cities of varied population size

1 Million <	1-4 Million	> 4 Million
Bhilai	Agra	Ahmedabad
Bilaspur	Aurangabad	Chennai
Chas	Bareilly	Pune
Jalgaon	Dhanbad	Surat
Jamnagar	Indore	
Saharanpur	Madurai	
Satna	Moradabad	
Tumakuru	PCMC	
Nizamabad	Prayagraj (Allahabad)	
	Raipur	
	Rajkot	
	Ranchi	
	Vadodara	
	Vijaywada	
	Vishakhapatnam	
	Warangal	

Selection of cities is based on availability of data points in the public domain and to get across different population sizes

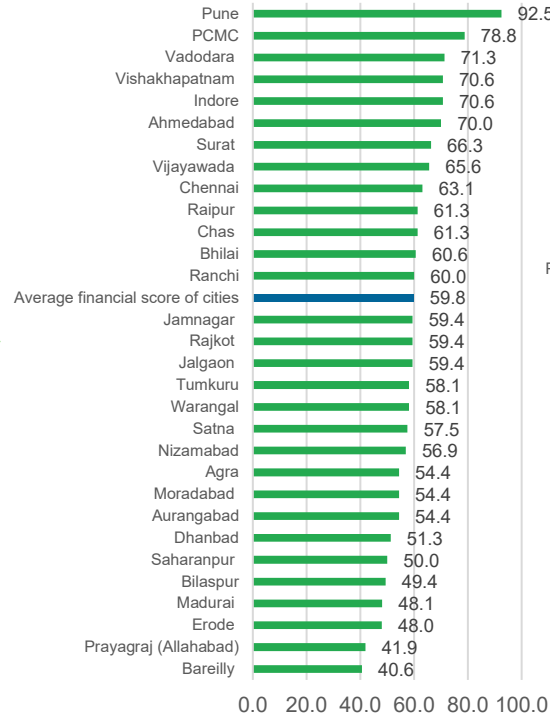
Key results of creditworthiness assessment

Overall Creditworthiness Score:



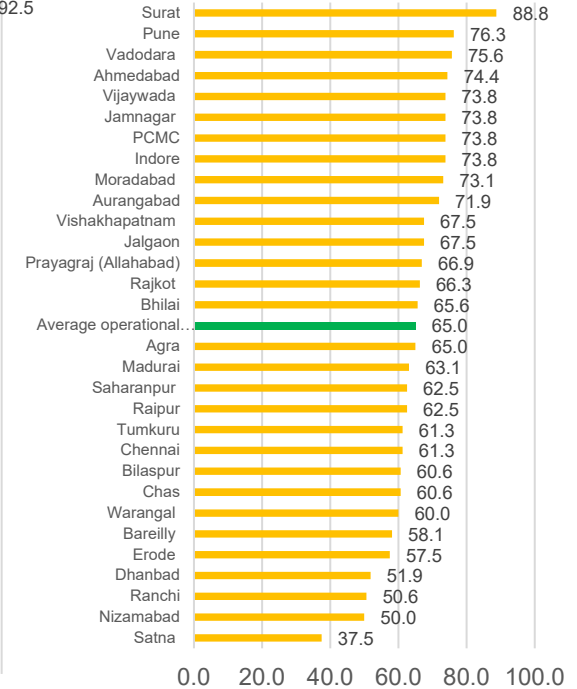
Pune tops the overall creditworthiness assessment performance

Financial Score:



Pune again tops the financial performance

Operational Score:



Surat tops the operational performance

Key results of creditworthiness assessment: Rating results

26 cities are creditworthy out of the universe of 30 cities..

7 cities : High Quality of Creditworthiness
 6 cities: Adequate Quality of Creditworthiness
 12 cities: Moderate Quality of Creditworthiness
 4 cities: High level of risk

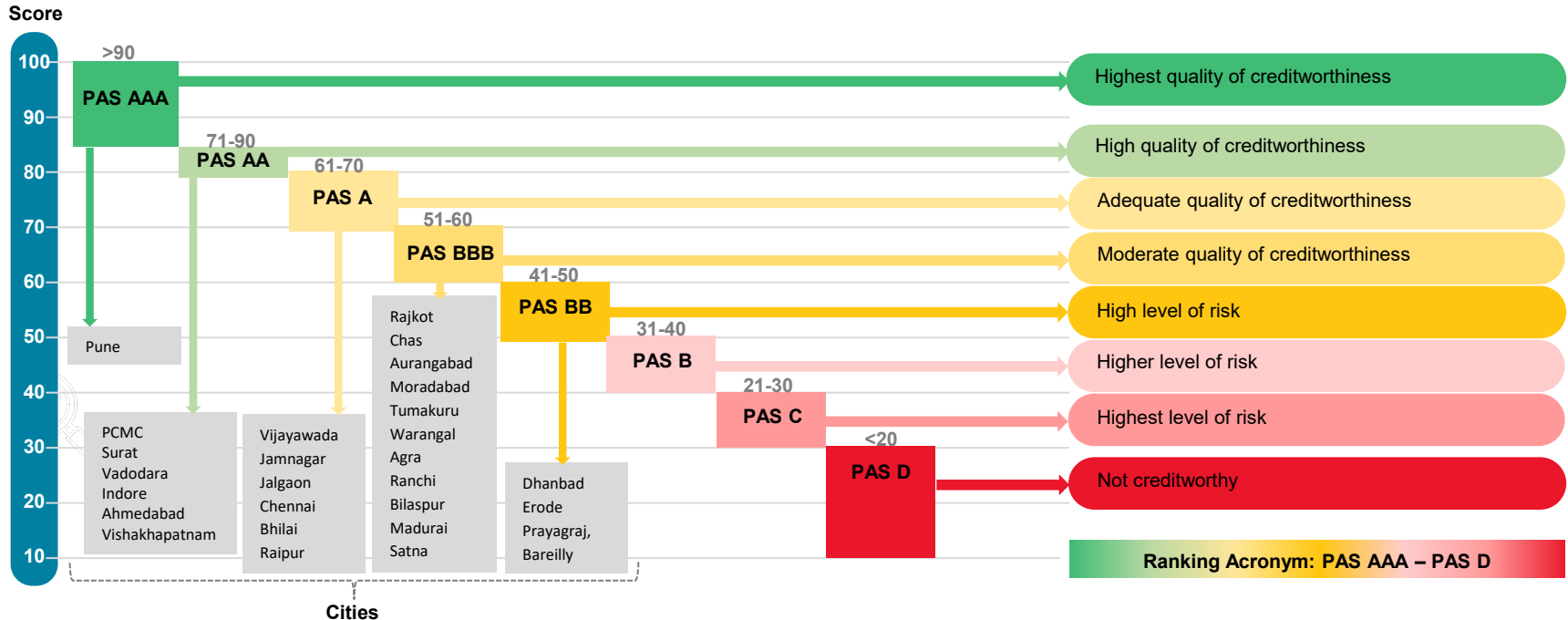
PAS Creditworthiness Score	Rating	Cities	Creditworthiness quality
Above 85	PAS AAA	Pune	Highest quality of creditworthiness
71-85	PAS AA	PCMC, Surat, Vadodara, Indore Ahmedabad, Vishakhapatnam	High quality of creditworthiness
61-70	PAS A	Vijayawada, Jamnagar, Jalgaon, Chennai, Bhilai, Raipur	Adequate quality of creditworthiness
51-60	PAS BBB	Rajkot, Chas, Aurangabad, Moradabad, Tumakuru, Warangal, Agra, Ranchi, Bilaspur, Madurai, Satna, Dhanbad	Moderate quality of creditworthiness
41-50	PAS BB	Dhanbad, Erode, Prayagraj, Bareilly	High level of Risk
31-40	PAS B		Higher level of Risk
21-30	PAS C		Highest level of Risk
Less than 20	PAS D		Not creditworthy

Key results of creditworthiness assessment: Rating results

26 out of 30 cities were assessed as creditworthy...

Only 8 cities have issued municipal bonds

7 cities : High Quality of Creditworthiness
 6 cities: Adequate Quality of Creditworthiness
 12 cities: Moderate Quality of Creditworthiness
 4 cities: High level of risk





Thank you

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About us

The Center for Water and Sanitation at CEPT University carries out various activities – action research, training, advocacy to enable state and local governments to improve delivery of services.



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