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Government of India
Ministry of Housing and Urban Affairs
(AMRUT-IIB)

Nirman Bhawan, New Delhi

Dated: 29 July, 2024

To,

All the participants,
as per the list .

Sub: Round Table meeting on Creditworthiness Assessments Parameters of ULBs - Minutes of the Meeting- reg.

Madam/Sir,

I am directed to forward herewith Minutes of Meeting held under the Chairpersonship of Addl. Secretary (AMRUT) on 16.07.2024 to assess the Creditworthiness Assessments Parameters of ULBs, for information and necessary action.

Yours faithfully,

Encl: As above.



(G. S. Dhillon)
Director
Tel: 23062399

**Minutes of Round-Table consultation meeting held under the chairpersonship of
Additional Secretary (AMRUT) on 16 July, 2024 reg. 'Creditworthiness Assessment – An
Approach for Indian Cities'.**

A roundtable meeting on 'Creditworthiness Assessment – An Approach for Indian Cities' was held in Hybrid mode (online and offline) on July 16, 2024, under the chairpersonship of Ms. D Thara, Additional Secretary, Ministry of Housing and Urban Affairs (MoHUA). The list of participants is at **Annexure**.

Discussion was held on framework for creditworthiness assessment of Urban Local Bodies (ULBs), developed by Center for Water and Sanitation (CWAS) of CEPT University. This meeting was attended by ULB officials, credit rating agencies, multilateral development banks, lenders and sector experts.

The Director, MoHUA welcomed the participants to the meeting. The Chair in her opening remarks mentioned that the objective for the meeting was to receive feedback on the Creditworthiness Assessment framework from credit rating agencies, ULB officials, lenders and sector experts and to examine whether cities can be found to be creditworthy without undergoing the credit rating process. She said that the framework will be finalised after receiving comments and suggestions from the participants. **Key discussion points are as follows:**

1. Need for a Creditworthiness Assessment Framework:

- The presentation made by the CEPT team highlighted that cities need to be creditworthy and build confidence of the investors, lenders and the private sector to attract investments in urban infrastructure. Higher "creditworthiness" will improve a city's ability to access market borrowings. The Creditworthiness assessment framework developed by the CWAS, CEPT team will help to assess the credit risk associated with lending to an Urban Local Body (ULB). It is an overall assessment and is not linked to the specific terms of a lending instrument such as term loans, bonds etc. This tool can act as a pre-cursor to actual credit rating before issuing for borrowings.
- The creditworthiness framework developed by CWAS, CEPT includes both financial indicators and also includes service level benchmark indicators. CWAS has prepared a self-assessment tool to help Urban Local Bodies (ULBs) in India to undertake an initial assessment of their own creditworthiness and borrowing capacity. The tool uses publicly available data from cityfinance.in to track a ULB's revenue base, expenditure management, liquidity profile, debt servicing ability, borrowing capacity, service provision levels etc. It was highlighted that service level benchmark parameters act as proxies for expenditure. CWAS, CEPT has tested the framework on a sample of 30 cities from Gujarat and Maharashtra. It was further mentioned that it is good for credit rating agencies and lenders to create the need for ULBs to do this type of assessment on a regular basis.

2. Feedback from stakeholders:

- Several sector experts highlighted that connecting creditworthiness to Service Level Benchmarks (SLBs) is a good idea, as it also builds on the argument that better provision of services will result in better tax collections and recovery. It was emphasised that central and state grants are inadequate and there is a need for cities to borrow funds for

infrastructure investments. It was also suggested that the framework can be a helpful tool for municipalities for a first level assessment of their creditworthiness. Cities can assess their creditworthiness scores through this tool, take actions to improve their creditworthiness and then approach a credit rating agency. Dr. Partha Mukhopadhyay, CPR suggested that differentiating a ULB's creditworthiness rating with WASH indicators/service level benchmarks and without WASH indicators would be a useful representation. Mr. Gautam, IAS (Retd) highlighted the structural reasons for low offtake of municipal bonds and mentioned that credit ratings and municipal bond issues are not connected with projects and levy of user charges, and without levy of user charges and revenue constraints, ULBs need to pay a higher rate of interest w.r.t. market borrowings. He also highlighted that in addition to municipal bonds, ULBs have the option of availing loans from institutional lenders like HUDCO and various state agencies – which would be more cost effective if market interest rates are going down.

- ULB officials highlighted that the proposed creditworthiness tool can be of great importance for the cities since it can also assess the influence of service level parameters. Citing experience from Vadodara's municipal bond issuance, it was mentioned that good service levels of Vadodara helped facilitate over-subscription of bonds and helped in gaining investor confidence. Additional Commissioner, Greater Hyderabad Municipal Corporation stated that the tool could help cities conduct a preliminary assessment of their 'market readiness/credit worthiness' to help save time and expenses before undertaking the actual credit rating process. She also flagged that in ULBs like Hyderabad, water and sewerage services provision is the mandate of parastatals and not ULBs, so these nuances would need to be taken into account while evaluating a ULB's service delivery performance for the proposed creditworthiness evaluation.
- Representatives of credit rating agencies remarked that the framework will be helpful for the ULBs and can also be very useful for rating agencies as this will help ULBs prepare necessary data for creditworthiness assessment which is generally the most time consuming part of the exercise. The representatives shared some concerns on the methodology such as the use of one year's data for assessing a ULB's creditworthiness and clarified that credit ratings by agencies actually take in 3-5 years data to assess a ULB's position and credit ratings are generally forward looking instead of being a static representation of a ULB's current position. They also remarked that in their experience, the results under the tool could change significantly even if data for a larger number of years for the same sample ULBs is considered. They suggested to improve the efficacy of the tool by testing it on a larger sample of ULBs from various states (instead of the present sample of 30 cities from Gujarat and Maharashtra), testing the results for the same set of ULBs for a different and additional set of years instead of only one year. They also suggested inclusion of additional parameters to assess a ULB's capacity building bandwidth, project execution capacity and socio-economic parameters such as population, literacy etc. They also remarked that instead of using ratings for creditworthiness, the framework could use scores to avoid confusion among ULBs, lenders and investors. It was further highlighted that while credit ratings are done under SEBI guidelines, there are no regulatory oversight for creditworthiness scores. So, it will be an exercise to be undertaken by the ULBs themselves.
- Representative from World Bank stated that the incentives for ULBs in undertaking this exercise are unclear, and also stated that there are systemic/structural reasons due to which market borrowings have not taken off in India, including issues with the state's Fiscal Responsibility Budget Management (FRBM) norms, availability of cheaper credit from state institutions vis-à-vis open market, and the inability of some ULBs that have raised muni bonds in effectively utilising the raised resources for investments.

- Financial agency representatives highlighted that the creditworthiness tool will be helpful for them to track the debt servicing, income, and expenditure performance of cities before an actual credit evaluation. They also suggested that the tool could also capture any credit default history.

3. Action Points:

- The Chair requested participants to suggest how other indicators based on population growth, socio economic growth, climate indicators, number of DPRs prepared and approved by the city, economic viability of the project etc., can also be factored in the creditworthiness framework. Credit Rating Agencies, Lenders and MDBs and other participants were requested to send their suggestions on additional indicators, by July 31st, 2024.
- It was suggested that the creditworthiness tool can also be used by lenders in the context of project or term loans.
- It was suggested that CWAS, CEPT can do a deep-dive with a few cities to validate information taken from public domain with ULB records. For this, MoHUA can provide necessary support such as tender/ DPR details of urban Missions to understand the spending capacity of the ULBs.
- As an incentive to the ULBs, Chair suggested that the lending agencies (HUDCO, NHB) and multilateral development banks (World Bank and ADB) could allocate some funds for cities that go through such a creditworthiness exercise. Representatives of lending agencies and multilateral agencies such as HUDCO, ADB, NHB and the World Bank may earmark some funds for this. For this, financial institutions were requested to submit a proposal with a commitment of potential loans/investment amount for urban infrastructure financing with MoHUA at the earliest.
- The Chair was of the view that the framework and tool developed by CWAS, CEPT can be considered as a ready reckoner for evaluating ULBs creditworthiness before undertaking the actual credit rating process and CWAS, CEPT can build capacity of ULBs to use this tool.
- The Chair concluded the discussion by thanking the participants for their valuable suggestions and hoped that all stakeholders will work with a constructive spirit for making cities creditworthy.

Annexure

List of Participants for the roundtable meeting on 'Creditworthiness Assessment – An Approach for Indian Cities' held on July 16, 2024 at 10:00 A.M. in Hybrid Mode

	Name of Attendee	Designation	Organization
1	Ms. D Thara, IAS	Additional Secretary	MoHUA
2	Mr. Gurjeet Singh Dhillon	Director	MoHUA
3	Mr. H. C. Prasad	Under Secretary (AMRUT)	MoHUA
4	Ms. Seema Rani	Section Officer	MoHUA
5	Dr. I.P. Gautam IAS (Retd.)	Former Member-Lokpal	
6	Ms. Shalini Agrawal (IAS)	Municipal Commissioner	Surat Municipal Corporation
7	Ms. Sneha Shabarish (IAS)	Additional Commissioner	Greater Hyderabad Municipal Corporation
8	Ms. P Gauthami (IAS)	Jt. Managing Director	MRDCL, Municipal Administration and Urban Development, Government of Telangana
9	Mr. G.V.V. Satyanarayana	Chartered Accountant	Greater Vishakhapatnam Municipal Corporation
10	Mr. G.Anand Rao	Chief Finance Officer	Greater Vishakhapatnam Municipal Corporation
11	Mr. C Vasudeva Reddy	Examiner of Accounts	Greater Vishakhapatnam Municipal Corporation
12	Dr. Meera Mehta	Emeritus Professor and Director	CWAS, CRDF, CEPT University
13	Dr. Dinesh Mehta	Emeritus Professor and Director	CWAS, CRDF, CEPT University
14	Ms. Sujatha Srikumar	Managing Director-Powertech	Consultant to CWAS, CEPT
15	Mr. Dhruv Bhavsar	Senior Program Lead	CWAS, CRDF, CEPT University
16	Ms. Saubiya Sareshwala	Senior Research Associate	CWAS, CRDF, CEPT University
17	Mr. Om Prakash Mathur	Senior Fellow	Centre for Social and Economic Progress
18	Mr. Chetan Vaidya	Senior Urban Advisor	
19	Mr. Partha Mukhopadhyay	Senior Fellow	Centre for Policy Research
20	Mr. Raghu Kesavan	Senior Infrastructure Specialist	World Bank
21	Mr. Tushar Arora	Senior Financial Sector Specialist	World Bank
22	Mr. Riddhiman Saha	Urban Specialist	World Bank
23	Ms. Poonam Ahluwalia	Senior Municipal Engineer	World Bank
24	Mr. Milind Mhaske	Chief Executive Officer	Praja Foundation
25	Mr. Manoj Sharma	Director, WASH and Urban Development Sector	Asian Development Bank
26	Mr. D P Prajapati	Deputy General Manager	National Housing Bank
27	Ms. Shreshtha Saraswat	Senior Manager	Janaagraha
28	Mr. Rohit Sharma	Associate Manager	Janaagraha
29	Mr. Raman Oberoi	Senior Advisor	CRISIL
30	Mr. Ramesh Karunakaran	Senior Director	CRISIL
31	Mr. Manish Pathak	Vice-President	ICRA
32	Mr. Devendra Kumar Pant	Chief Economist	India Ratings and Research
33	Ms. Rajashree Murkute	Senior Director, Head-Infrastructure	CARE Ratings
34	Mr. Ritesh Kumar	PMU, AMRUT	CRISIL