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NEW AVENUES FOR MUNICIPAL FINANCES

Bond Issuances by Urban Local Bodies in India

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Preface

The study "Trends in the Finances of Municipal Corporations in India" has been carried out by the National Institute of Public Finance and Policy supported by the Ministry of Housing and Urban Affairs (MoHUA) under the MoHUA – NIPFP research programme.

The study examines the evolving landscape of municipal bond issuances as an important long-term financing tool for Urban Local Bodies. In doing so it reviews the existing framework/regulation for issuing and listing of municipal debt securities, the municipal acts of states among others.

The study team consists of Manish Gupta, and Atrayee Choudhury. The opinions and analyses here are those of the authors only. The members of the Governing Body of the National Institute of Public Finance and Policy are in no way responsible for these.

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New Avenues for Municipal Finances - Bond Issuances by Urban Local Bodies in India

1. Introduction

One of the challenges India faces today is the pace of urbanisation. Between 2001 and 2011, India's urban population rose from 285 million to 377 million, as the urbanisation rate increased from 27.8 per cent to 31.2 per cent. This pace of urbanisation is likely to continue, and as per the recent estimates by UN-Habitat's World Cities Report 2022, India's urban population is estimated to increase to 675 million in 2035. To cater to the needs of the growing urban population, urban infrastructure and basic services such as solid waste management, sanitation, transport, water supply, education etc. need to be expanded significantly. The investment required to meet this challenge is immense as the traditional sources of finance in the form of grants from the Union and State governments and existing own sources of revenues are not adequate (Gupta et al 2025, Athar et al 2022)[1]. Central, state and city governments would need to find ways/mechanisms to augment own revenues of urban local governments, explore new and innovative ways to raise resources and also access alternate sources of long-term finance from private sources through local capital markets to address the growing fiscal and infrastructure shortfalls that the Indian cities face.

It is in this context the current paper investigates bond financing as an alternative means for financing capital and infrastructure projects by urban local bodies (ULBs) in India. Municipal bonds are debt instruments issued by local governments to raise money from the capital market for meeting their capital expenditure requirements. They are issued with a promise to repay a fixed principal amount with coupon, which can be paid at fixed intervals or at the end of the tenure. Coupons are typically paid semi-annually. In effect, municipal bonds are loans from investors to the local governments. They can help local bodies to raise money directly while reducing their dependence on state or central grants and can additionally bridge the large infrastructure financing gap. Over the past decade, municipal bonds have emerged as a vital tool for expanding urban revenue streams and financing infrastructure in countries such as South Africa, United States and Russia (Samal, 2021). Lessons from some of these successful models can help develop and strengthening and municipal bond market in India.

The rest of the paper is organised as follows: Section 2 discusses the evolution of municipal bonds market in India. Enabling provisions relating to borrowings by ULBs across Municipal

[1] Athar et al (2022) estimate that India will require $840 billion (Rs.68.9 trillion; $1 = Rs.82), or 1.18 percent of projected GDP, in capital investment for urban infrastructure and municipal services over FY 2022-36 - an average of $56 billion (Rs.4.59 trillion) annually. In contrast, between 2011 and 2018, average annual investment was $10.6 billion (Rs.0.85 trillion; 0.6 percent of GDP), indicating the steep gap between needs and current spending.

Acts of different states are outlined in Section 3. Section 4 analyses in details the recent bond issuances by municipal corporations starting from 2017. Section 5 presents an analysis of credit risk profile of the issued municipal bonds from investors perspective along with the comparative analysis of borrowing cost from issuing bonds vis-à-vis borrowing from financial institutions like schedule commercial banks. Section 6 concludes the paper.

2. Evolution of municipal bonds markets in India

Municipal bond issuances in India can be broadly categorised into three phases

1) The 1st Phase (Mid-1990s to 2005): this can also be called the ***initial development phase*** During this period, only a small number of well-known municipal corporations (MCs) issued bonds. Bengaluru MC was the first MC in India to float municipal bonds in 1997 backed by state government guarantee followed by Ahmedabad MC in 1998 without the state guarantee. This initial phase saw a healthy growth with 9 MCs raising around Rs.1200 crores. The average issue size being Rs.130 crores per corporation (RBI, 2022).

2) The 2nd Phase (Period between 2006 and 2015): This phase can also be called a ***phase of limited activity*** as the municipal bond issuance came to an abrupt halt post 2005. This phase was marked by a slowdown in market borrowing. Not many municipal bonds, except for some pooled issues were floated during this period. The fall in bond activity was attributed to the launch of Jawaharlal Nehru National Urban Renewal Mission (JnNURM) in 2005. Under JnNURM central government grants totalling to about Rs.1 lakh crore were allocated to the qualifying municipal corporations (RBI, 2022), which was more attractive to ULBs compared to the effort of issuing and servicing municipal bonds.

   Further the lull in bond issuance can also be explained by the declining appeal of these bonds from an investor perspective: taxable municipal bonds declined after 2005 in the face of high levels of taxation and competition from fixed and small-scale deposits in the market; non-taxable municipal bonds lost sheen after 2007 with the rise of equity markets and illiquid municipal bonds (Nallathiga, 2015).

3) The 3rd Phase (Period since 2017): This phase is the ***incentive driven phase***. This phase is marked by increase in municipal bond issuances. Since 2017, there has been 26 issuances of municipal bonds by 19 Municipal Corporations. The total amount raised through these issuances was around Rs.3,784 crore. The details are presented in Table 1.

Table 1: Municipal Bonds Issuances since 2017

Name of MC	Mode of Issue	Date of Issue	Amount (Rs. cr.)	Coupon (%)	Tenure (in yrs)	Escrow	Ratings
Pune	Private placement	20-Jun-17	**200.0**	7.59	10	Property tax	CARE AA+/ Stable; Prov AA+/stable
Greater Hyderabad	Private placement	16-Feb-18	**200.0**	8.90	10	Property tax and fees & user charges	CARE AA+; Stable Prov. AA+/stable
Indore	Private placement	28-Jun-18	**139.9**	9.25	10	Own revenues	AA(SO)
Greater Hyderabad	Private placement	14-Aug-18	**195.0**	9.38	10	Property tax and fees & user charges	CARE AA Stable; IND AA stable
Bhopal	Private placement	25-Sep-18	**175.0**	9.55	10	Property tax, water tax and other own revenues, fees & user charges	AA(SO)
Greater Vishakhapatnam	Private placement	21-Dec-18	**80.0**	10.00	10	Property tax, vacant land tax & bulk water supply charges for at least 1.5 times the borrowed amount	CARE AA+(SO); Prov. IND AA+(SO)
Ahmedabad	Private placement	11-Jan-19	**200.0**	8.70	5	Property tax & user charges	Prov. CRISIL AA+(SO); Prov. IND AA+(SO)
Surat	Private placement	27-Feb-19	**200.0**	8.68	5	Property tax & user charges	CRISIL AA+(SO); IND AA+(SO)
Greater Hyderabad	Private placement	20-Aug-19	**100.0**	10.23	10	Property tax and Fees and User charges	IND Prov. AA/ Stable; CARE Prov. AA+ Stable
Lucknow	Private placement	13-Nov-20	**200.0**	8.50	4-10	Property tax (or any other tax levied in place of property tax) and fees & user charges	Prov. IND AA/ Stable; Prov BWR AA (CE) Stable
Ghaziabad Nagar Nigam *(Green bonds)*	Private placement	31-Mar-21	**150.0**	8.10	4-10	Tax Revenues & Revenue Grants	Prov. IND AA/ Stable Prov BWR AA(CE) Stable
Vadodra	Private placement	24-Mar-22	**100.0**	7.15	5	Tax Income (i.e., property tax, water tax/charges, conservancy tax, safai/ cleaning tax, fire tax, vehicle tax, professional tax)	Prov. IND AA+/ Stable; Prov. CRISIL AA/Stable
Indore *(Green bonds)*	Public Issue	20-Feb-23	**244.0**	8.25	3-9	Own revenues	IND AA+/ Stable; CARE AA Stable
Pimpri Chinchwad	Private placement	28-July-23	**200.0**	8.15	5	Property tax or any other specified revenue/ cash-flow deposited in account where property tax is collected	CARE AA+ Stable; Prov. CRISIL AA+/Stable
Ahmedabad *(Green bonds)*	Private placement	6-Feb-24	**200.0**	7.90	5	Property tax & user charges	Prov. CRISIL AA+/Stable; Prov. IND AA+/Stable

Name of MC	Mode of Issue	Date of Issue	Amount (Rs. cr.)	Coupon (%)	Tenure (in yrs)	Escrow	Ratings
Vadodra ***(Green bonds)***	Private placement	5-Mar-24	**100.0**	7.90	5	Tax income (i.e., property tax, water tax/ charges, conservancy tax, safai/cleaning tax, fire tax, vehicle tax, professional tax.)	Prov. IND AA+/Stable; Prov. CRISIL AA/Stable
Rajkot	Private placement	21-Oct-24	**100.0**	7.90	4-5	Own Revenues	CRISIL AA/Stable; IND AA/Stable
Agra Nagar Nigam	Private placement	15-April-25	**50.0**	8.15	4-7	Property Tax (or any other tax levied in place of property tax)	Prov ACUITE AA (Stable)
Prayagraj Nagar Nigam	Private placement	2-May-2021	**50.0**	8.07	4-7	Property tax	Prov ACUITE AA (Stable)
Greater Chennai	Private placement	21-May-25	**200.0**	7.97	6-10	Property tax from Zones 5 & 7 of city	Prov. IND AA+/Stable
Varanasi Nagar Nigam	Private placement	7-May-25	**50.0**	8.01	4-7	Property tax	Prov. IND AA/Stable
Pimpri Chinchwad	Private placement	June-25	**200.0**	7.85	4-5	Property tax or any other specified revenue/ cash-flow deposited in account where property tax is collected	Prov. CRISIL AA+/Stable
Gandhinagar	Private placement	23-June-25	**25.0**	7.65	5	Tax Income	Prov. CRISIL AA-/Stable
Surat ***(Green bonds)***	Public Issue	06-Oct-25	**200.0**	8.00	4-5	Own Revenues. It includes entire tax revenue (i.e. property tax, profession tax, water charge etc), non-tax revenue & other income	Prov. CRISIL AA+/Stable Prov. IND AA+/Stable
Bhavnagar	Private placement	06-Oct-25	**25.0**	8.00	5	Own revenues and cash flows (excluding grants, subsidies, assigned revenues and compensations)	Prov. CRISIL AA-/Stable, Prov. IND AA-/Stable
Nasik	Private placement	19-Nov-2025	**200.0**	7.80	5	Own revenues and cash flows (excluding grants, subsidies, assigned revenues and compensations)	Prov. IND AA+/Stable
Total			**3783.9**				

Source: Placement memorandum/Offer document of municipal corporations; SEBI

The spurt in bond issuances in the recent period (i.e., since 2017) can be attributed to

i) **Securities and Exchange Board of India (Issue and Listing of Debt Securities by Municipalities) Regulations, 2015**: To encourage launching of municipal bond offerings in India, the Security and Exchange Board of India (SEBI) issued guidelines/regulation relating to issuing, listing and trading of securities issued by municipalities in July 2015, called the "Securities and Exchange Board of India (Issue and Listing of Debt Securities by Municipalities) Regulations, 2015" (SEBI-ILDS regulations). Over the years the SEBI regulations were amended to facilitate bond issuances as also to boost participation from the investors. Table 2 lists some of the key amendments to the SEBI regulation of 2015.

Table 2: Key Amendments to the SEBI 2015 Regulations

	Initial 2015 Regulation	Amendments
Definition of Issuer	• Limited to municipalities or corporate municipal entities	• Any municipality or Statutory Body or Board or corporation, Authority, Trust or Agency established or notified by any Central or State Act or any SPV notified by State or Central Govt subject to the condition that it undertakes one or more functions that may be entrusted under Article 243W. • Broadened to include pooled financing entities under the Pooled Development Fund Scheme or a body corporate to whom Companies Act 2013 apply.
Nature of Instrument	• Private placement: General obligation bonds & revenue bonds • Public Issue: Revenue bonds only	• Broadened to municipal debt securities – debentures, bonds, non-convertible debt securities
Scope of Private placement	• Offer of debt securities or invitation to subscribe to debt securities to a select group of persons not more than 200 persons	• Any offer/invitation made to qualified institutional buyers shall not be considered while calculating the limit of 200 persons
Green Bonds[2]	• Did not define green debt security	• Issuers allowed to issue green bonds • SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 provide definition of green debt securities

[2] Green bonds are similar to any other bond where a debt instrument is issued by an issuer for raising funds. However, unlike other bonds the proceeds of a green bond are earmarked for use towards financing 'green' projects. Green debt security is defined under Regulation 2(1)(q) of the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 (i.e., NCS Regulations, 2021).

Green debt security means a debt security issued for raising funds that are to be utilised for project(s) and/or asset(s) falling under any of the following categories, subject to the conditions as may be specified by the Board from time to time:

(i) Renewable and sustainable energy including wind, solar, bioenergy, other sources of energy which use clean technology,
(ii) Clean transportation including mass/public transportation,
(iii) Sustainable water management including clean and/or drinking water, water recycling,
(iv) Energy efficiency including efficient and green buildings,
(v) Sustainable waste management including recycling, waste to energy, efficient disposal of wastage,
(vi) Sustainable land use including sustainable forestry and agriculture, afforestation,
(vii) Biodiversity conservation,
(viii) Or a category as may be specified by the Board, from time to time.

	Initial 2015 Regulation	Amendments
Minimum subscription (private placement)	• Rs. 25 lakh per investor or such amount as may be specified by Board from time to time	• Lowered to Rs. 10 lakh per investor to widen investor base
Eligibility clause	• Municipality shall not have negative net worth in any of the three immediately preceding financial years	• Private placement: No such requirement • Public Issue: the issuer has surplus as per its IE Statement in any of the immediately preceding three financial years or as per any other financial criteria as may be specified by the Board from time to time. Provided a corporate municipal entity shall not have negative net worth in any of immediately preceding three financial years
Over-subscription	• No clause pertaining to over-subscription	• Issuers allowed to retain over-subscription money up to 100% of Base Issue size but not exceeding the rated size or any lower limit as specified in the offer document, if any. • Issuers filing a shelf offer document allowed to retain over-subscription up to the total size of the shelf offer document.
Creation of security	• Secured by creation of a charge, on properties or assets or receivables of the issuer having a value which is sufficient for due repayment of the amount of debentures & interest thereon • In case of unsecured debentures: such debt securities shall either be backed by guarantee from State or Central Govt or shall have a structured payment mechanism whereby the issuer will deposit debt servicing amounts in the designated bank account at least 10 working days before due date of payment	• Issuer to create a structured payment mechanism and maintain specific escrow accounts for debt servicing of municipal debt securities as specified by the Board from time to time.

Source: SEBI

Further, in 2019 RBI/SEBI permitted Foreign Portfolio Investors (FPIs) to invest in municipal bonds.

ii) The **Smart Cities Mission**, a Centrally Sponsored Scheme was launched in 2015 with the objective of strengthening the social, economic, physical, and institutional pillars of the city to drive economic growth and improve quality of life also pushed for projects to be funded through private financing and rekindled interest in municipal bonds in public discourse.

iii) **Government Incentive under Atal Mission for Rejuvenation and Urban Transformation (AMRUT) scheme**: Cities/Urban Local Bodies (ULBs) have been encouraged to mobilize

resources by issuing Municipal Bonds since 2018-19 under the AMRUT scheme. Incentive for issuance of municipal bonds has been continued under AMRUT 2.0.

The ULBs issuing bonds for the first time are provided incentive at the rate of Rs.13 crore per Rs.100 crore worth of bonds issued with the total incentive not exceeding Rs.26 crore per ULB. ULBs can claim incentive for the second me against fresh issuance of bonds, if the bonds issued fulfil the criteria of green bonds specified by Securities and Exchange Board of India (these bonds should be for projects on water supply, sanitation, renewable energy and urban resilience). On issuance of these bonds, ULBs shall be eligible for incentive of Rs.10 crore per Rs.100 crore worth of bonds issued with total incentive not exceeding Rs.20 crore.

All these enabling conditions resulted in a relatively large number of ULBs issuing municipal bonds as compared to those between 1997-2015. However, the number of ULBs accessing capital markets and the quantum of borrowings through municipal bonds continue to remain small. Since 2017, only 19 municipal corporation through 26 issuances have raised only Rs.3,784 crore.

3. Legal provisions for borrowing by ULBs across States

The overarching framework on municipal borrowings is guided by the Local Authorities Loans Act, 1914, and its successive enactments under the Government of India Acts of 1917 and 1935. Since local governments are placed under the administrative and legislative control of the State governments, over time, municipal laws across states have been amended to suit their purpose and requirements. Other than state legislations, guidelines of SEBI on Municipal Bonds, the RBI Master Circular on Loans and Advances, are some of the important guideposts for analysing the domain of borrowings and debt instruments.

Review of municipal acts of states reveal that ULBs are allowed to borrow, but they have to seek permission from the respective state governments. The general provisions relating to borrowings are more or less similar across states as highlighted in Table 3, however, municipal laws in five states - Arunachal Pradesh, Bihar, Jharkhand, Sikkim, Odisha and Tamil Nadu explicitly allow borrowing through issuance of bonds. In Andhra Pradesh, J&K and Telangana, only municipal corporations have the power to borrow. In several states, the borrowings of some of the larger corporations are governed by the respective city corporation act. For example, Assam (Guwahati Municipal Corporation Act 1971), Maharashtra (The Mumbai Municipal Corporation Act 1888), Tamil Nadu (Chennai City Municipal Corporation Act 1919, Madhurai City Municipal Corporation Act 1971, Coimbatore City Municipal Corporation Act 1981), Telangana (The Greater Hyderabad Municipal Corporations Act 1955), Karnataka (The Bruhat Bengaluru Mahanagara Palike Act, 2020), West Bengal (The Kolkata Municipal Corporations Act, 1980).

Table 3: Borrowing provisions across various State Acts

Nature of borrowing power	States where only the Corporations can borrow	States which specifically mentions about bond issuance
General provisions: a) Power of municipality to raise loan b) Power to raise loan by the issue of debentures or otherwise, on the security of the property tax or all or any of other taxes, surcharges, cesses, fees, and dues under the State Municipal Act. c) Power of municipality to open credit account with bank and grant mortgages d) Power of municipality to raise short term loan; e) Power of Municipality to borrow money from State Govt and attachment of Municipal Fund for recovery of such money	• Andhra Pradesh • J&K • Telangana	• Arunachal Pradesh • Bihar • Jharkhand • Sikkim • Odisha • Tamil Nadu

Source: State Municipal Acts

How much can the ULBs borrow? Are there any limits on the extent of their borrowings? How does one determine the borrowing capacity of ULBs? Is there any regulatory framework for municipal borrowing in any of the state acts? To answer some of these questions we examined the municipal acts of states. It was observed that not all state municipal acts specified a limit on borrowings by the ULB to ensure judicious spending by the ULBs and to put a check or limit on excessive borrowing and avoid risk of loan default. Limits on borrowing is defined in Municipal acts of Chhattisgarh, Goa, Kerala, Madhya Pradesh and West Bengal. In these states the municipal acts specify a limit on borrowings. The borrowing limits are fixed as a percentage of value of land as arrived at, in computing Property Taxes. However, in Goa an annual limit of Rs.50 crore is specified. In other states the acts mention that the municipal borrowings are governed by the Comprehensive Debt Limitation Policy (CDLP) as can be seen from Table 4. The Comprehensive Debt Limitation Policy is a regulatory framework aimed at regulating borrowings by municipal bodies. However, to the best of our knowledge such policy has not been formulated in any of these states.

Table 4: Limits to Borrowing in State Acts

Functional powers	States/MCs
Comprehensive Debt Limitation Policy	• 6 states - Arunachal Pradesh, Assam, Bihar, Jharkhand, Odisha, Rajasthan.
Limits on Borrowing power	• Chhattisgarh (double the annual value of lands and buildings in the city), • Goa (50 crores), • Bruhat Bengaluru Mahanagara Palike Act (10 percent of rateable value of buildings and lands), • Kerala (restricted by amount it collects annually) • Madhya Pradesh (double the annual value of lands and buildings in the city) • West Bengal (Municipal Corporation Act - 15 percent of the annual value of lands and buildings)

Source: State Municipal Acts

Further, among the states where the municipal acts have either specified a limit on borrowings or where borrowings are governed by the comprehensive debt limitation policy, corporation in Madhya Pradesh have issued bonds. In all other states where the corporation have issues municipal bonds the municipal acts do not have any limits or a framework for limiting borrowings (Table 5). This indicates that there is still a great deal of state-level discretion in the institutional framework governing municipal borrowing.

Table 5: States issuing bonds and fiscal discipline framework

States where corporations have issued bonds	Comprehensive Debt Limitation Policy	Limit on Borrowing Power
Maharashtra	No	No
Telangana	No	No
Madhya Pradesh	No	**Yes**
Andhra Pradesh	No	No
Gujarat	No	No
Uttar Pradesh	No	No
Tamil Nadu	No	No

Source: Authors' derivation

ULBs' reliance on government grants combined with lax or inexistant rule-based constraints creates an environment where state discretion frequently prevails over statutory provisions. Thus, even when borrowing limitations or CDLP-like frameworks exist on paper, their failure to be operationalized shows deeper institutional flaws, such as inconsistent execution, fragmented regulatory authority, and a lack of predictable, rules-based governance. International evidence suggests that municipal bond markets grow most effectively when borrowing limitations are clearly specified and free of political influence. In India, the lack of such functional, rules-based debt management at the state level ensures that municipal bond issuance remains unequal and heavily influenced by state-specific political and administrative objectives.

4. Recent bond issuances in India

In this section we examine the recent bond issuances by Municipal Corporations in India. Since 2017, there has been 26 issuances of municipal bonds by 19 Municipal Corporations. The total amount raised through these issuances was around Rs.3,784 crore. These municipal bonds are listed in the National Stock Exchange or Bombay Stock Exchange.

Of the 26 issuances, 24 are on a private placement[3] basis and only two are through public issue – Indore Municipal Corporation (Feb-2023) Sural Municipal Corporation (Oct-2025). Five

[3] When an issue/offer of municipal debt securities is made to investors/public through an issue of offer document, it is called a public issue. However, when an issuer makes an offer of municipal debt securities to a select group of persons (not exceeding two hundred excluding qualified institutional buyers in a financial year), through placement memorandum, it is called a private placement (SEBI, 2022)

of the 26 issuances are green bonds of which 2 are public issues. The 19 municipal corporations that have issued bonds are limited to 7 states – Andhra Pradesh (1 municipal corporation), Gujarat (6 municipal corporations), Madhya Pradesh (2 municipal corporations), Maharashtra (3 municipal corporations), Tamil Nadu (1 municipal corporation), Telangana (1 municipal corporation) and Uttar Pradesh (5 municipal corporations).

The coupon rates for these issuances vary between 7.15 to 10.23 percent. The tenure of these issuances range between 3-10 years. Between 2017 and 2021, most of the bonds were of 10 years tenure. The tenure of issuances seemed to have declined with more recent issuances being of a tenure of 5 years.

From the examination of the Placement Memorandum (offer document in case of public issue of Indore municipal corporation) of each of the municipal corporations filed with SEBI we see that these bonds are not backed by a guarantee or letter of comfort from state government or any other party. Moreover, these bonds are of the nature of general obligation bonds and the funds raised through these issuances has been utilized towards capital expenditure for implementation of various developmental projects like road development, water supply projects, sewerage and septage management projects etc. wherein it is difficult to levy user charges or these projects do not have revenue stream from which to service the debt and are backed by the taxing power and other regular incomes of the issuing municipalities.

These bonds are proposed to be serviced through a structured payment mechanism along with dedicated escrow account to ensure timely servicing of the bonds. Setting up of an escrow mechanism is one of the key solutions for addressing the risk perception of the investors. The objective of escrowing is to earmark specific revenue streams of the ULB for debt servicing to improve visibility and certainty of cash flows to Investors, thereby improving credit quality and issue rating of the Bonds. The identified revenue streams would have to be sufficient to meet the repayment obligations of the ULB. In most cases property tax and fees & user charges that collected in the account where property tax revenues get accumulated are escrowed by the ULBs issuing bonds (for details see table 1).

The issuance size ranges between Rs.25-244 crore which is limited to the government's incentive (of a maximum of Rs.26 crore for an issuance of Rs. 200 crore). Further, from the examination of the financial information in the placement memorandum (or offer document in case of public issue) it is observed that for several issuances (14 issuances), the immediately preceding three-year average revenue surplus of the issuing corporation from the date of issuance was considerably higher than the issuance size. This means that recent bond activity was primarily fuelled by the government incentive.

The sustenance of this momentum once the financial incentive from the government gets withdrawn remains to be seen.

Table 6: Issuance size versus Surplus/Deficit of issuing corporation

Sr. No.	Municipal Corporations	Date of Issuance	Issuance size (Rs. crore)	3-year average Surplus/Deficit (Rs. crore)
1	Pune	20-Jun-17	200.0	1360.0
2	Greater Hyderabad	16-Feb-18	200.0	126.0
3	Indore	28-Jun-18	139.9	274.0
4	Greater Hyderabad	14-Aug-18	195.0	147.5
5	Bhopal	25-Sep-18	175.0	184.6
6	Greater Vizag	21-Dec-18	80.0	98.3
7	Ahmedabad	11-Jan-19	200.0	902.9
8	Surat	27-Feb-19	200.0	123.0
9	Greater Hyderabad	20-Aug-19	100.0	195.5
10	Lucknow	13-Nov-20	200.0	44.0
11	Ghaziabad (Green bond)	31-Mar-21	150.0	96.1
12	Vadodara	24-Mar-22	100.0	36.0
13	Indore (Public Issue) Green bond	10-Feb-23	244.0	356.0
14	Pimpri Chinchwad	01-Aug-23	200.0	156.9
15	Ahmedabad (Green bond)	06-Feb-24	200.0	457.9
16	Vadodara (Green bond)	01-Mar-24	100.0	85.5
17	Rajkot	21-Oct-24	100.0	-73.4
18	Agra	15-Apr-25	50.0	128.4
19	Prayagraj	02-May-21	50.0	15.2
20	Varanasi	07-May-25	50.0	318.0
21	Greater Chennai	21-May-25	200.0	277.5
22	Pimpri Chinchwad	03-Jun-25	200.0	459.4
23	Gandhinagar	23-Jun-25	25.0	194.6
24	Bhavnagar	16-Oct-25	25.0	10.3
25	Surat (Public Issue) Green bond	06-Oct-25	200.0	157.3
26	Nashik	19-Nov-25	200.0	562.2

Note: Surplus/Deficit refers to revenue surplus/deficit. The 3-year average is the average of the immediately preceding three years prior to the issue of bond.
Source: Authors' derivation from placement memorandum/offer document and SEBI

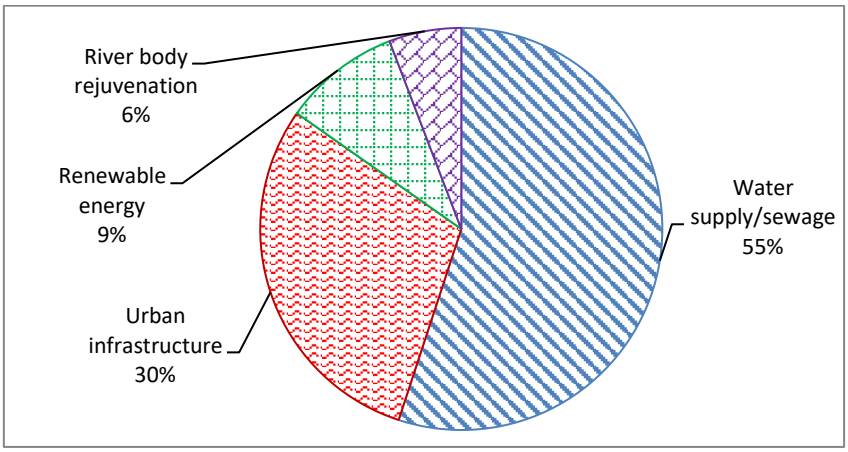
4.1. Sectors of bond financing

Most of these bonds are general obligation bonds and the funds raised through these issuances has been utilized towards capital expenditure for implementation of various developmental projects like road development, water supply projects, sewerage and septage management projects, setting up of water treatment and sewerage treatment plants, water pumping station, residential projects, prepayment of high-cost loans towards capital expenditure made on earlier projects etc. Many of these projects are part of the projects identified under AMRUT that are being executed by Municipal Corporations. Fig-1 provides sector-wise distribution of bond proceeds since 2017 while annexure Table A1 provides an

overview of the types of projects proposed to be funded by the corporation through bond issuances.

Most of the bond proceeds (55 percent or Rs. 2085.7 crores) was meant to be utilised for projects related to water supply and sewage treatment which is one of the core focus areas under AMRUT (Fig-1). The other important sector in terms of funds utilisation is the urban civil infrastructure sector which accounted for about 30 percent (or Rs. 1126 crore) of the funds raised through bonds. The main activities include road development in cities like Hyderabad, Lucknow, and Rajkot. Expenditure on the development of renewable energy sources solar and wind power projects accounted for about 9 percent (or Rs. 257 crore) of the total bond issuance.

Fig-1: Sector-wise utilisation of bond proceeds

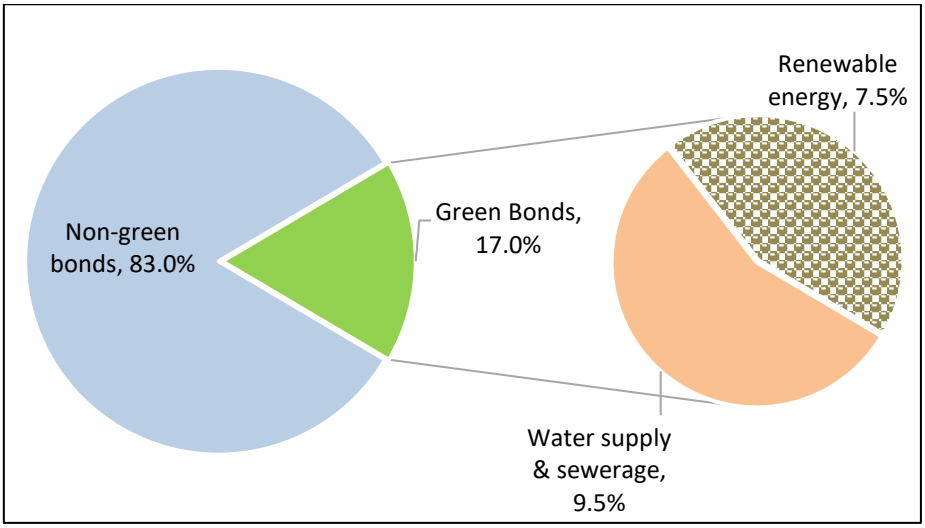


Source: Placement memorandum/offer document of corporation; SEBI

A recent innovation in the municipal bond market was marked by the issue of Rs 150 crore Green Bond issued by Ghaziabad Municipal Corporation in April 2020 to partially fund the reuse of treated municipal waste water. This bond not only met the SEBI criteria for municipal bonds, but it also met the SEBI eligibility standards for corporate organizations issuing "Green Bonds". In a similar vein, Indore Municipal Corporation was the second ULB to issue green bonds. Till date 5 municipal corporations have issued green bonds of which 2 are public issues. The other corporations issuing green bonds are Ahmedabad, Vadodara and Surat. Bonds that raise money for environmentally friendly infrastructure projects are known as "green bonds." This classification aims to direct investments and finances towards particular projects as specified by SEBI, even though most of the municipal bonds issued in the recent period (i.e., since 2017) can be regarded as green bonds due to their emphasis on water and sanitation.

The green bonds account for about 17 percent of the total bonds issued (amounting to Rs.626.6 crore) since 2017, while the remaining are classified non-green bonds (Fig-2). Out of the total green-labelled bond issuances, around 56 percent (or 9.5 percent of the total bond issuance) were for water supply and sewage related works while the remaining 44 percent (or 7.5 percent of the total bond issuance) was towards renewable energy projects (solar and wind power projects) as evident from Fig-2.

Fig-2: Bonds Issuance, by nature of bonds (% of total size)



Source: Placement memorandum/offer document of corporation; SEBI

5. Comparative analysis of Municipal bond coupon rates, G-Sec yield rates and lending rates of Scheduled Commercial banks

To analyse viability of municipal bonds as a long-tern financial source of ULBs it is important to examine the gains/advantages from both the issuers' as well as investors'/market's perspective. To do so, in this section we compare the municipal bond coupon rates with market benchmark rates, particularly the sovereign government securities (G-Sec) yield rates and also with Weighted Average Lending Rate (WALR) the scheduled commercial bank.

We compare the coupon rate of municipal bonds to the yield rates of government securities (G-sec) of comparable tenure and issued around the similar time as the municipal bonds. It is observed that the tenure of municipal bonds issued from 2017 onwards ranges between 3-10 years. We classify these bonds into those with 10-year and 5-year tenure so as to make them comparable with the 10-year and 5-year G-sec yield rates. The spread which is the difference between the bond coupon rate and G-sec yield rate gives the premium the market/investor demands over sovereign, risk-free G-Sec.

The municipal bond coupon rates with tenures ranging between 7-10 years along with 10-year G-sec yield rate and the spread between the two is presented in Table-7 while those for 4-5 tenure municipal bonds and 5-year G-sec yield rates is presented in Table 8. Figures 3 and 4 presents the spread for 10-year and 5-year tenor rates respectively.

It is observed that the spread value representing the risk premium the market demands over the sovereign, risk-free rate (G-Sec) to compensate for the Municipal Corporation's credit risk started to decline from 2019 onwards, implying lesser risky perceptions of investors on municipal bonds as compared to the earlier period. This has been true for both 5- and 10-year tenor issuances (Fig-3 and 4). The government incentive for issuing bonds kicked in around that period. The fall in the spread post 2019 could be on account of the AMRUT incentives,

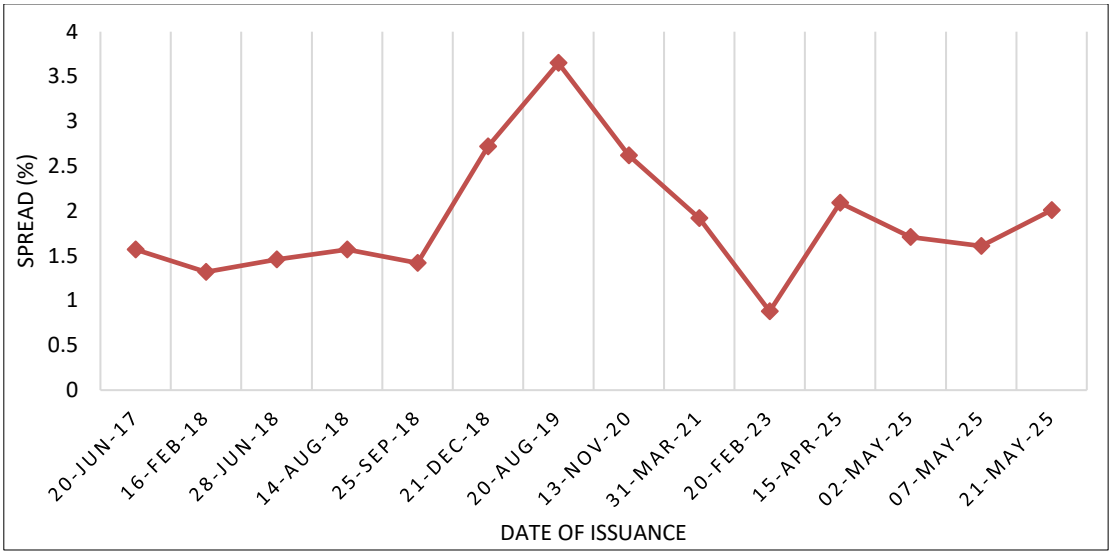
which became effective from 2019 onwards, being subsequently aided by stronger structured payment mechanisms enhancing credit ratings of the bond (ICRA, 2025).

Table 7. Comparison of Municipal Bond coupon rates against G-Sec yield rate (10 year)

Municipal Corporation	Date of issue	Coupon rate (%)	Tenure (year)	10-yr G-sec yield rate (%)	Spread (%) (Diff between 10-yr G-Sec yield & Bond coupon rate)
1	2	3	4	5	6 = (5-4)
Pune	20-Jun-17	7.59	10	6.02	1.57
Greater Hyderabad	16-Feb-18	8.90	10	7.58	1.32
Indore	28-Jun-18	9.25	10	7.79	1.46
Greater Hyderabad	14-Aug-18	9.38	10	7.81	1.57
Bhopal	25-Sep-18	9.55	10	8.13	1.42
Gr Vishakhapatnam	21-Dec-18	10.00	10	7.28	2.72
Greater Hyderabad	20-Aug-19	10.23	10	6.58	3.65
Lucknow	13-Nov-20	8.50	10	5.88	2.62
Ghaziabad	31-Mar-21	8.10	10	6.18	1.92
Indore	20-Feb-23	8.25	10	7.37	0.88
Agra	15-Apr-25	8.50	7	6.41	2.09
Prayagraj	02-May-25	8.07	7	6.36	1.71
Varanasi	07-May-25	8.01	7	6.40	1.61
Greater Chennai	21-May-25	7.97	7 to 10	5.96	2.01

Source: Placement memorandum/Offer document of municipal corporations; SEBI; RBI

Figure 3: Comparison between Bonds coupon rate and G-Sec yield rate (10 yrs tenor)



Source: Placement memorandum/Offer document of municipal corporations; SEBI; RBI

However, this pattern seems to have reversed from 2024 onward, when spreads begin to widen again across most municipal issuances. Notably, this rise does not stem from an increase in bond coupon rates, which have remained relatively sticky at around 7.8–8 percent and even declined marginally post April 2025. Instead, the widening of spread is primarily driven by a sharper and persistent fall in G-Sec yields over 2023-24 amid a globally tightening

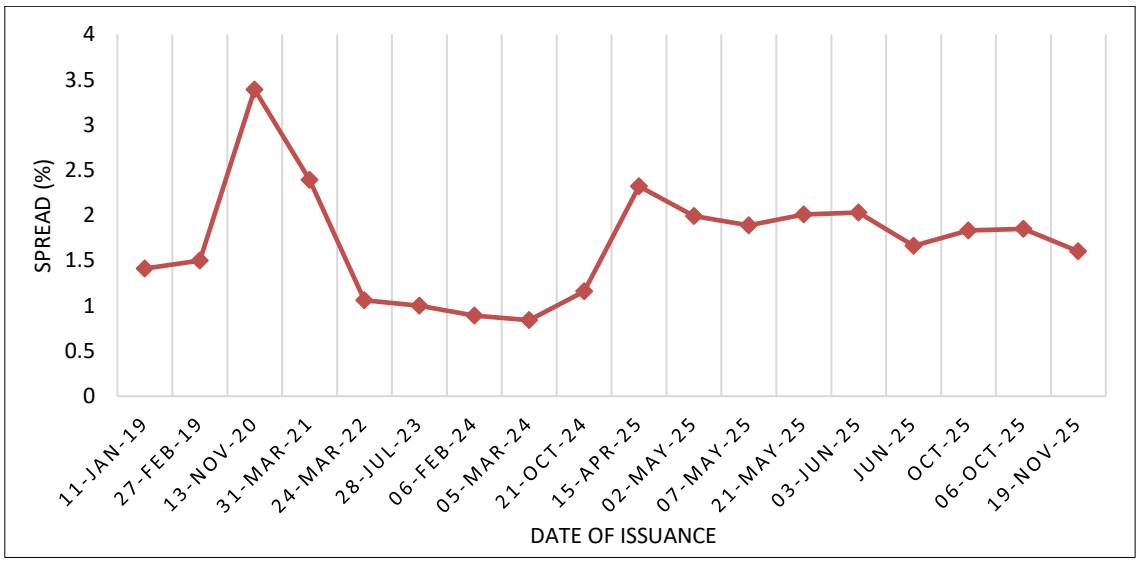
macroeconomic environment. Since spreads measure the difference between the risk-free rate and the coupon, the decline in the sovereign benchmark mechanically increases spreads even if bond coupons remain constant. The drop in India's long-term G-Sec yields after 2023 is due to substantial liquidity injections by the RBI, lower domestic inflation, and robust foreign inflows, all of which reduced the risk premia on government debt (CRISIL, 2025).

Table 8. Comparison of Municipal Bond coupon rates against G-Sec yield rate (5 year)

Municipal Corporation	Date of issue	Coupon rate (%)	Tenure (year)	5-yr G-sec yield rate (%)	Spread (%) (Diff between 5-yr G-Sec yield & Bonds coupon rate)
1	2	3	4	5	6 = (5-4)
Ahmedabad	11-Jan-19	8.70	5	7.29	1.41
Surat	27-Feb-19	8.68	5	7.18	1.50
Lucknow	13-Nov-20	8.50	4	5.11	3.39
Ghaziabad	31-Mar-21	8.10	4	5.71	2.39
Vadodara	24-Mar-22	7.15	5	6.09	1.06
Pimpri Chinchwad	28-Jul-23	8.15	5	7.15	1.00
Ahmedabad	06-Feb-24	7.90	5	7.01	0.89
Vadodara	05-Mar-24	7.90	5	7.06	0.84
Rajkot	21-Oct-24	7.90	4 to 5	6.74	1.16
Agra	15-Apr-25	8.50	4 to 6	6.18	2.32
Prayagraj	02-May-25	8.07	4 to 6	6.08	1.99
Varanasi	07-May-25	8.01	4 to 6	6.12	1.89
Greater Chennai	21-May-25	7.97	6	5.96	2.01
Pimpri Chinchwad	03-Jun-25	7.85	4 to 5	5.82	2.03
Gandhinagar	Jun-25	7.65	5	5.99	1.66
Bhavnagar	Oct-25	8.00	5	6.17	1.83
Surat	06-Oct-25	8.00	4 to 5	6.15	1.85
Nasik	19-Nov-25	7.80	5	6.20	1.60

Source: Placement memorandum/Offer document of municipal corporations; SEBI; RBI

Figure 4: Comparison between Bonds coupon rate and G-Sec yield rate (5 yrs tenor)



Source: Placement memorandum/Offer document of municipal corporations; SEBI; RBI

To evaluate the cost effectiveness of issuing bonds from the issuer's (i.e., ULB's) perspective we compare the bond coupon rates with that of weighted average lending rates (WALR) of the scheduled commercial banks in general as also with that of the public sector banks. These are presented in Table 9 while the spread which is the difference between the WALR and bond coupon rate for both scheduled commercial banks and public sector banks is presented in Fig-5.

Table 9. Comparison of Municipal Bond coupon rates against WALR and SDL cut off yield

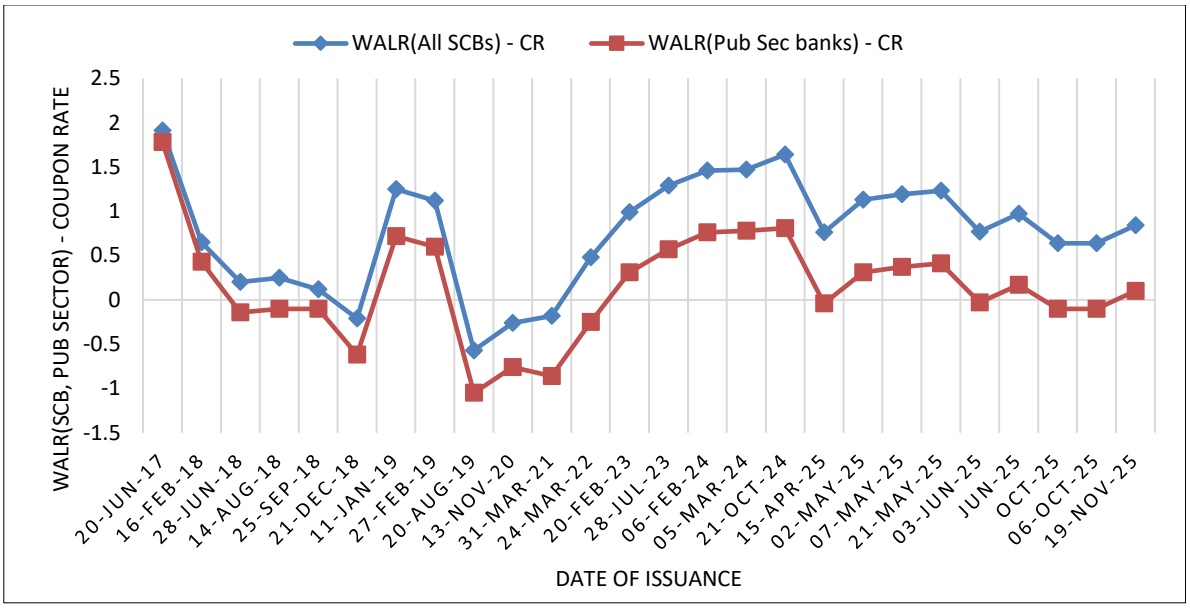
Municipal Corporations	Date of issue	Coupon rate (%)	Tenor (yr)	WALR (%)		Spread	
				All SCBs	Pub-sec Banks	WALR (All SCBs) – CR (%)	WALR (Pub-sec banks) – CR (%)
1	2	3	4	5	6	7 = (5-3)	8 = (6-3)
Pune	20-Jun-17	7.59	10	9.50	9.37	1.91	1.78
Greater Hyderabad	16-Feb-18	8.90	10	9.55	9.33	0.65	0.43
Indore	28-Jun-18	9.25	10	9.45	9.11	0.20	-0.14
Greater Hyderabad	14-Aug-18	9.38	10	9.63	9.28	0.25	-0.10
Bhopal	25-Sep-18	9.55	10	9.67	9.45	0.12	-0.10
Gr Vishakhapatnam	21-Dec-18	10.00	10	9.79	9.38	-0.21	-0.62
Ahmedabad	11-Jan-19	8.70	5	9.95	9.42	1.25	0.72
Surat	27-Feb-19	8.68	5	9.80	9.28	1.12	0.60
Greater Hyderabad	20-Aug-19	10.23	10	9.66	9.18	-0.57	-1.05
Lucknow	13-Nov-20	8.50	4 to 10	8.24	7.74	-0.26	-0.76
Ghaziabad	31-Mar-21	8.10	4 to 10	7.92	7.24	-0.18	-0.86
Vadodara	24-Mar-22	7.15	5	7.63	6.90	0.48	-0.25
Indore	20-Feb-23	8.25	10	9.24	8.56	0.99	0.31
Pimpri Chinchwad	28-Jul-23	8.15	5	9.44	8.72	1.29	0.57
Ahmedabad	06-Feb-24	7.90	5	9.36	8.66	1.46	0.76
Vadodara	05-Mar-24	7.90	5	9.37	8.68	1.47	0.78
Rajkot	21-Oct-24	7.90	4 to 5	9.54	8.71	1.64	0.81
Agra	15-Apr-25	8.50	4 to 7	9.26	8.46	0.76	-0.04
Prayagraj	02-May-25	8.07	4 to 7	9.20	8.38	1.13	0.31
Varanasi	07-May-25	8.01	4 to 7	9.20	8.38	1.19	0.37
Greater Chennai	21-May-25	7.97	6 to 10	9.20	8.38	1.23	0.41
Pimpri Chinchwad	03-Jun-25	7.85	4 to 5	8.62	7.82	0.77	-0.03
Gandhinagar	Jun-25	7.65	5	8.62	7.82	0.97	0.17
Bhavnagar	Oct-25	8.00	5	8.64	7.90	0.64	-0.10
Surat	06-Oct-25	8.00	4 to 5	8.64	7.90	0.64	-0.10
Nasik	19-Nov-25	7.80	5	8.64	7.90	0.84	0.10

Note: CR: Coupon rate; WALR: Weighted average lending rate; SCB: Schedule Commercial Banks
Source: Placement memorandum/Offer document of municipal corporations; SEBI; RBI

It is observed that the WALR has exceeded municipal bond coupon rates during the period under consideration except during the COVID-19 period (i.e., the spread has been largely positive for most of the period). Although the spread is lower for the public sector banks, its

difference with that of the schedule commercial banks is negligible. A positive spread (i.e., WALR being higher than bond coupon rates) indicate that the cost of borrowing is lower for municipal bonds as compared to the borrowings from the banks. The ULBs should prefer bonds due to the benefit of lower cost, fixed and predictable repayment schedules, which mitigate interest rate volatility, and rising costs associated with banks' floating rates.

Fig-5: Comparison of Bond coupon rates with WALR



Source: Placement memorandum/Offer document of municipal corporations; SEBI; RBI

Further, bonds offer longer maturities and reduce ULBs' exposure to the on-going refinancing risk and uncertainty associated with frequent bank loan renewals, and compliances. Commercial banks are typically risk averse when it comes to the long-term tenor needed for urban infrastructure projects, preferring shorter lending horizons (RBI, 2019; Kelkar Committee Report, 2015; IDFC report, 2018). Banks usually impose loan covenants such as – disclosure of periodic financial statements, inspecting the books and assets of ULBs, maintaining a specified DSCR (Debt Service Coverage Ratio), DER (Debt- Equity Ratio) etc, which increase the magnitude of compliance. While municipal bonds allow greater flexibility in terms of repayment and project financing than the restricting constraints such as loan covenants or liquidity conditions, which are often imposed by bank loans.

The spread between G-sec yield and bond coupon rates indicate the risk premium the market demands over the sovereign, risk-free rate (G-Sec) to compensate for the Municipal Corporation's credit risk. Post 2019 the we see a narrowing of the spread, implying lesser risky perceptions of investors on municipal bonds during this period. This decline/narrowing could be attributed to the AMRUT incentive for issuing bonds. However, the spread started to widen from 2024 onwards largely due to a sharper and persistent fall in G-Sec yields over 2023-24 amid a globally tightening macroeconomic environment. Strengthening revenue mobilisation, strengthening fiscal discipline, and improving disclosure processes will be critical to restoring investor trust and ensuring that municipal bonds remain a viable, long-term vehicle for urban

infrastructure financing. Further, a comparison of bond coupon rates with WALR of scheduled commercial banks indicate that bonds are still a relatively cost-effective option for ULBs, yet ULBs continue to borrow more from the banks and other financial institutions.

6. Conclusion

At the outset of rapidly increasing urbanization in India, this paper examines how municipal bonds can be a viable alternative for financing urban infrastructure requirements in the ULBs. While India has made significant strides in rejuvenating its municipal bond market through AMRUT-linked incentives, framing regulations for issuing and listing of municipal debt securities and its subsequent modification for widening the scope for both issuers and investors, the overall municipal borrowing continue to remain miniscule. The post-2015 regulatory environment has reduced entry barriers, expanded eligible issuers, enhanced transparency and listing standards, and implemented more credible escrow-based debt servicing mechanisms. However, the low number and volume of issuances, the overwhelming dominance of private placements, and the slow growth of green municipal debt highlights the structural restrictions that the ULBs continue to face.

Furthermore, the study finds that the institutional framework governing municipal borrowing allows scope for institutional discretion. Even if borrowing limits or CDLP-like frameworks exist on paper, their failure to be operationalized reveals larger institutional weaknesses, inconsistent execution, fragmented regulatory authority, and a lack of predictable, rules-based governance.

An assessment of municipal bond credit risk from the investor's perspective reveals that credit risk has steadily declined after 2019, in both 5- and 10-year issuances, which is largely attributable to AMRUT-linked incentives effective from 2019, fostered by the adoption of structured payment mechanisms that improved credit visibility. Although spreads widened in issuances post October 2024, this shift is triggered by declining and sticky G-Sec yields amid a globally tightening macroeconomic environment. Further, from the issuer's perspective, the higher WALR relative to bond coupon rates suggests that cost of funds borrowing is relatively via the issuance of bonds rather than borrowing from scheduled commercial banks thereby making municipal bonds an alternate cost-effective financing option for ULBs.

Strengthening ULB fiscal autonomy, enforcing modern accounting and disclosure practices, implementing rule-based state borrowing frameworks, and diversifying investor participation, particularly among retail and long-term institutional investors, are critical to realizing the full potential of municipal debt. Without such reforms, municipal bonds will remain a specialized, incentive-driven financing vehicle rather than a strong pillar of urban infrastructure development in India.

Going forward, beyond expanding the investor base and boosting ULB finances to enable sustainable escrow procedures, several other measures are required for a resilient municipal

bond market. A dedicated municipal finance advisory body is necessary to guide ULBs in bond issuance and capital market participation, especially given the shallow primary and secondary market - just four municipal bonds were traded in 2023 and 2024, with total traded volumes of Rs.193 crore and Rs.281.45 crore, respectively (Krishnan, 2025). Second, ongoing data gaps, irregular accounting processes, and audited report delays impede financial assessment (RBI, 2022). Harmonizing accounting codes and enhancing statistical capabilities across municipalities would make data analysis easier while also raising understanding of municipal bond regulations and performance. Finally, pooled financing solutions can greatly increase capital market access for smaller or less financially secure ULBs. The Water Services Trust Fund, part of the Tamil Nadu Urban Development Fund, exemplifies how aggregating the borrowing needs of multiple ULBs, supported by pooled risk-sharing and credit upgrades, can lower borrowing costs and attract investors (MoHUA, 2017).

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Annexure

Table A1: Projects/Sectors where the municipal bond proceeds are utilized

Municipal Corporation	Project details	Amount	Sector
Pune	Sewerage & storm water management	150.00	water supply/ sewerage
	Smart city infrastructure	50.00	Urban infrastructure
Greater Hyderabad	Strategic road development	200.00	Urban infrastructure
Indore	Development of a continuous (24×7) piped water-supply system	139.90	water supply/ sewerage
Greater Hyderabad	Civil infrastructure works	200.00	Urban infrastructure
Bhopal	Projects related to works under AMRUT	175.00	water supply/ sewerage
Greater Vishakhapatnam	Supply of recycled water and sewerage treatment development	80.00	water supply/ sewerage
Ahmedabad	Water pumping stations & sewerage treatment plants	200.00	water supply/ sewerage
Surat	Sewage treatment plants	200.00	water supply/ sewerage
Greater Hyderabad	2-bhk housing scheme	100.00	Urban infrastructure
Lucknow	residential project	194.71	Urban infrastructure
	water supply project	5.29	water supply/ sewerage
Ghaziabad (green bonds)	Reuse of treated wastewater from sewage treatment plant	150.00	water supply/ sewerage
Vadodara	Improvement to Water Supply Arrangement and pumping station	100.00	water supply/ sewerage
Indore (green bonds)	60 MW Ground Mounted Captive Solar PV Power Plan	244.00	Renewable energy
Pimpri Chinchwad	Development Of Mula river	200.00	River rejuvenation
Ahmedabad (green bonds)	Construction of 160 MLD Tertiary Treatment Plant (TTP) at Pirana	140.00	water supply/ sewage
	Construction of 400 MLD Water treatment plant with zero liquid discharge (ZLD) facility at Kotarpur.	50.00	water supply/ sewage
	Enhancement of renewable energy capacity by 25MW through Wind (10 MW) and Solar (15 MW) projects	10.00	Renewable energy
Vadodara (green bonds)	Construction of 100 MLD Sewage Treatment Plant	62.60	water supply/ sewage
	New Auxiliary Pumping Station (With 10 years O&M), Pressure line and Drainage Network	6.77	water supply/ sewage
	New Sewage Treatment Plant and Main Pumping Station	30.63	water supply/ sewage
Rajkot	Constructions of pumping stations and pipeline distribution	100.00	water supply/ sewage
Agra	Citizen residential and facilitation centres	21.00	Urban infrastructure
	7.5MW of Solar Power Project	29.00	Renewable energy

Municipal Corporation	Project details	Amount	Sector
Prayagraj	Construction of hospital block	50.00	Urban infrastructure
Varanasi	Development of market complexes	50.00	Urban infrastructure
Gr. Chennai	Construction Of Integrated Stormwater Drain	200.00	Water supply/sewage
Pimpri Chinchwad	Development of street network, telecom and other civil works	200.00	Urban infrastructure
Gandhinagar	Construction of civil works	25.00	Urban infrastructure
Bhavnagar	Gadhechi River Rejuvenation Works	20.25	river rejuvenation
	Water treatment plan	4.75	Water supply/ sewage
Nashik	Construction of pedestrian bridge	31.25	Urban infrastructure
	Sewer network improvement	168.75	Water supply/ sewage
Surat (green bonds)	Installation of a 10 MW ground-mounted solar power plant	30.00	Renewable energy
	Installation of a 6.3 MW Wind Power Plant	44.00	Renewable energy
	Centralized Dry and Wet Waste processing plant	75.00	water supply/ sewage
	Augmentation and upgradation of Water Treatment Plant	30.00	water supply/ sewage
	Construction of Intake Well and transmission line	17.00	water supply/ sewage
	Development of depot for electric bus operations	4.00	Urban infrastructure

Source: Placement memorandum/Offer document of municipal corporations; SEBI

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