



## Ahmedabad issues municipal bonds to implement green projects

### Key findings

- Ahmedabad's success in raising finance from municipal bonds demonstrates potential for bonds to help fund climate-resilient development in urban areas.
- A strong credit rating is critical to successfully issue bonds. To achieve a good rating, local governments need to demonstrate good operational performance, financial health and strong governance.
- Governments play an important role in incentivising fundraising through market-based financing instruments. In India, the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) incentivises local governments to raise money from capital markets to finance urban development and enhance transparency and financial performance.
- The Securities and Exchange Board of India (SEBI) has also encouraged municipal bonds by easing the rules governing bond issuance and allowing foreign portfolio investors to invest in municipal bonds.

### Introduction

In India, central government programmes aimed at urban reforms to enhance service delivery and local governance require significant capital investment. Cities in India are turning to financial instruments like municipal bonds to raise money from the market to fund this development. The Atal Mission for Rejuvenation and Urban Transformation (AMRUT) programme in particular is incentivising local governments to issue municipal bonds. Green municipal bonds are useful for financing climate-resilient infrastructure, as they can be issued for long tenors of 10-20 years (a tenor is the period of the bond issuance), and are suitable issue sizes for large-scale projects.

### Approach

In 2017, the Securities and Exchange Board of India (SEBI) eased rules governing the issuing of municipal bonds.<sup>1</sup> Municipal bonds are debt securities issued to raise capital; in return, investors receive the principal amount with interest.

In January 2019, Ahmedabad, the largest municipal corporation in the state of Gujarat, raised 200 crore Indian rupees (INR) (\$26.2 million as at 23 April 2020) for 'green projects' by issuing municipal bonds. The municipality aims to use the funds for waste management, water supply and other infrastructure projects, including the cleaning of its Sabarmati River.<sup>2</sup>

The Ahmedabad Municipal Corporation (AMC) listed its bonds on the National Stock Exchange of India for projects to be implemented under the central government's AMRUT scheme. Merchant bankers Tipson and the State Bank of India Capital Markets provided technical support to the municipal body for listing the bonds. With a maturity of five years, the bond offers an interest rate of 8.7 percent.<sup>3</sup>

### Results

There is good potential for local governments to raise funds through municipal bonds for climate-resilient development and infrastructure, since there is a market eager to invest in these financial instruments. AMC's bonds were oversubscribed 5.42 times, with the municipal corporation receiving INR 1,085 crore (\$142.6 million) worth of subscriptions from 19 institutions.<sup>4</sup> This was the fifth time that the AMC had successfully raised funds by issuing municipal bonds.



View of Sabarmati Riverfront in Ahmedabad.

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## Success factors

The high demand for Ahmedabad's municipal bonds is a direct consequence of the **municipal corporation receiving an AA+ rating** from both a global (CRISIL) and an Indian (India Ratings) credit ratings agency in the 2018-2019 financial year. This indicated the AMC's capacity to pay interest and repay the principal amount. The rating reflects Ahmedabad's **strong financial risk profile** and **operating efficiency**:

- Since 2008, Ahmedabad has **implemented 31 projects** under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) without significantly exceeding the budget, given that a dedicated team monitors the implementation of projects under JNNURM.
- From 2014 to 2018, Ahmedabad's **income exceeded its expenditure**. This was accompanied by an **increase in tax and non-tax revenues** and reductions in power costs and interest costs due to loan restructuring.<sup>5</sup>

## Learning

Municipal bonds can help local governments to raise the sizeable funds needed for climate-resilient urban development, but local governments need to maintain strong financial health and good operational performance in order to secure high credit ratings from agencies like CRISIL and attract investor interest. Additionally, government schemes like AMRUT in India can incentivise fundraising through market-based financial instruments.

## Way forward

Even though the Indian municipal bond market is a 'drop in the ocean', eight local governments floated municipal bonds worth INR 3,200 crore (\$420,6 million) in the 2018-2019 financial year, after SEBI relaxed their rules.<sup>6</sup> Moreover, SEBI's revisions in May 2019 have now made it possible for foreign portfolio investors to invest in municipal bonds.<sup>7</sup> These revisions are all set to boost the Indian bond market.

At the time of writing, SEBI was also proposing to relax the criteria for cities to issue bonds (currently, only municipalities or corporate municipal entities can use this fundraising option).<sup>8</sup>

If the new amendment is accepted, more entities such as urban development authorities and city planning agencies can raise funds through municipal bonds.<sup>9</sup>

## Endnotes

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9. Ministry of Housing and Urban Affairs. (2018). 'Incentive to Urban Local Bodies which are covered under the Atal Mission for Rejuvenation and Urban Transformation for issuance of municipal bonds'. (23 March 2018). Retrieved from: <http://smartcities.gov.in/upload/oms/5ab8b4c31754cMunicipal%20Bonds%20letter%2026.03.18.pdf>

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Auto rickshaws and Bus Rapid Transport (BRT) buses provide public transportation in Ahmedabad.