India

Type of state	Federal
State / regional government level (number)	States (29)[1] Union Territories (7)
Local general government levels (number)	Urban Local Bodies (4,657) Villages (*Panchayats*) (262,771)[2]
Total subnational liabilities, 2020 (state/regional + local)	INR 53.4 trillion, (USD 721.05 billion eq.)
Local government outstanding liabilities, *% of total subnational, 2020*	0.16%
Total subnational liabilities growth*, CPI adjusted, 2016 to 2020*	37.75%
Local government liabilities growth*, CPI adjusted, 2016 to 2020*[3]	11.57%

Legal & regulatory environment	• Borrowing and lending is enabled, but Indian local governments have low levels of financial autonomy and capacity to raise financing[4] • In most states, ULB borrowing requires the approval of the state government, usually on a case-by-case basis, and this can often take six months or more[5]
Borrowing readiness	• ULBs have issued bonds • Lack of timely, reliable data on local governments finance[6] • While improvements have been made, challenges remain in accounting and financial management of many ULBs[7]
Macro credit conditions	• All local governments rely heavily on intergovernmental transfers • Most local governments don't have stable, predictable, and adequate revenues, hindering their ability to borrow[8]

Highlights

- All borrowing at the local government level (i.e., non-state or union territory level) in India happens with Urban Local Bodies (ULBs) and not the smaller and generally rural *Panchayats*.
- Most ULBs have limited discretionary funding and decision-making power over revenues and expenditure.
- There is a lack of reliable and comparable data on local government finance.
- State governments have full powers to regulate the activities, roles, powers, duties, and financial activities of local governments in their territory, including the approval of borrowings.
- ULBs can borrow from government institutions, financial intermediary funds in some states, banking institutions and the capital market.
- Both central government and state transfers to local governments have been rising over time. However, these transfers, that are decided every five years by the state and central government finance commissions,[9] are not always predictable and therefore do not allow local governments to plan[10] ahead and leverage them.[11]
- ULBs data reporting is spotty and it is therefore difficult to estimate aggregate debt data.

Borrowing legal & regulatory environment

Overview: India has a two-tier subnational government structure, based on a state level (29 states and 7 Union Territories) and a local government level consisting of 268,000 entities. Local government units include both rural (*Panchayats*) and urban local bodies (ULBs).

Since the 75th Amendment to the Federal Constitution, ULBs have been categorized according to their population: Municipal Corporations for large urban areas (205), Municipal Councils for small urban areas (877), and *Panchayats* for villages, mostly in rural areas. According to the last census (2011), there were 53 metropolitan areas with a population of over 1 million, 45 with a population between 1–5 million, 5 with a population between 5 and 10 million and three (Delhi, Kolkata and Mumbai) with populations over 10 million.[12]

The Constitution delegates powers regarding the establishment and regulation of local governments to state governments. Local governments are creatures of the state governments derive their powers and responsibilities from state-level statutes. As a result, responsibilities and powers of local governments vary significantly across the country from one state to another.[13]

***Borrowing framework & process*:** While state-level municipal legislation provides the legal framework for powers (including borrowing powers) and functioning of the ULBs, federal-level provisions regulate most lenders, instruments, financial markets, and tax regimes.

The Constitution: The 73rd and 74th Constitutional Amendment Acts of 1992 have been important milestones in strengthening of local governance in rural and urban areas in India. These amendments provide for the states to devolve financial and administrative responsibilities to local governments.
The 73rd Constitutional Amendment Act granted self-governance status to rural local governments (or *Panchayats)* and grants the states permission to allocate financial and administrative powers to local governing bodies. The 74th Constitutional Amendment Act of 1992 gave states the ability to award self-government status to Urban Local Bodies (ULBs) by transferring financial and administrative powers to them. After the 74th Constitutional Amendment Act, all state governments were permitted (and perhaps encouraged) to empower the ULBs by assigning them defined functions and responsibilities.

Federal-level regulations*:* The Government of India (GoI) has the power to regulate lenders and lending instruments through the Reserve Bank of India (RBI), the financial markets through Securities and Exchange Board of India (SEBI), and the tax regime surrounding municipal debt obligations through the Ministry of Finance.

Reserve Bank of India (RBI) regulations: The RBI has allowed foreign investors to invest in municipal bonds under prescribed limits to increase the potential supply of credit to municipalities in India. Foreign investors have been allowed to invest in municipal bonds since April 2019. Overall, foreign investment in municipal bonds cannot surpass the 2% limit of State Development Loans (SDL),[14] the same limit as set for foreign investments.

Securities and exchange board of India (SEBI) regulations: SEBI issued its Issue and Listing of Municipal Debt Securities Regulations in 2015 (as amended in September 2019). It also released the disclosures and other compliance requirements in November 2019. The SEBI regulations prescribe the eligibility, terms and conditions for public issue including tenure, credit rating, minimum subscription, accounting, auditing, and reporting requirements and other disclosures.

Tax regime for municipal bonds and infrastructure investments: The Ministry of Finance has been gradually opening the economy for Foreign Direct Investment (FDI) by extending tax concessions with the aim of attracting long-term investments in India's infrastructure sector. Some examples are tax free bonds, concessional tax rates to foreign investors, and tax exemptions for long term infrastructure investments.

The Ministry of Finance regulates tax free bonds. However, the approval process can be overly bureaucratic for investors and lacks in clarity.[15] In recent years the Indian Government has been moving away from granting tax-free status to local government bonds in favor of an incentive scheme under the Ministry of Housing and Urban Affairs (MOHUA).[16]

In the Federal Budget for 2020-2021, the concessional tax rate of 5% on interest on local government bonds (section 194LD of the Income Tax Act) was extended for bonds issued up to June 2023 for foreign investors.

Finally, the Central Board of Direct Taxes (CBDT) granted tax exemption on interest, dividend and capital gains income on long term investments made in infrastructure (Clause (23FE) of section 10 of the Income Tax Act). This provision was introduced through the Finance Act, 2020 to encourage investments of Sovereign Wealth Fund (SWF) and Pension Fund (PF) into the infrastructure sector of India. The tax break is applicable for investments made till March 2024 and is expected to help finance nearly 7,000 projects that are part of the national infrastructure pipeline.[17]

State-level Regulations: Legislation covering local government finance varies across the states. State governments have full powers to regulate the roles, powers, duties, and financial activities of local governments in their territory, including all local government borrowing. State-level regulations and procedures determine all aspects of *ex ante*[18] *and ex post*[19] local government borrowing regulations. Box 1 provides an example of the municipal legislation in the state of *Madhya Pradesh* for borrowing and debt.

Box 1: Municipal legislation in Madhya Pradesh: provisions for borrowings and debt

MADHYA PRADESH – Madhya Pradesh *Municipal Corporation Act 1956*

Section 102 – Powers of Corporation to borrow money:
•Stipulates that approval of State Government is mandatory for borrowing.
•The loan proceeds may be utilized to fund capital projects, land acquisition, and refinancing of loans.
•Borrowings cannot be used for payment of salaries or allowances to any municipal officers or servants
•Maximum repayment period of fifty years. In case borrowing is for repayment of an earlier loan, the tenor cannot exceed that of previous loan.

Section 104 –Borrowing limits
Total debt cannot exceed double the value of land and building assets in the ULB

Section 113 –Repayment of loans:
Lays out the debt repayment method as follows: by payment from a sinking fund, by equal payments of principal and interest, by refinance of loans or a combination of refinancing and payments.

Section 122 – Revenue intercept.
The Act allows the State Government to intercept the revenue of the ULB in case of delays in payments.

Section 123 – Annual statement to be prepared by Commissioner: This section lays out disclosure requirements detailing the outstanding loan, repayment track record, available balance in the sinking fund, etc.

Source: PPP Cell, Infrastructure Division, Department of Economic Affairs, Ministry of Finance, Government of India, 2017

State-level borrowing restrictions on local governments: The regulations pertaining to local government borrowing vary from state to state. However, there are several common threads.

- Borrowing approval: In most states, ULBs require the approval of the state government (normally the Department of Municipal Affairs) to borrow.
- Most states stipulate borrowing limits, loan duration, etc. using a variety of standards such as the value of ULB-owned property or the debt service payments.
- Most states have a maximum debt repayment period between 30 and 60 years.
- Most states require that debt cannot be used to pay operating costs.

State-level borrowing incentives / credit enhancements*:*

- Most states allow ULBs to pledge local revenue and property to be used as collateral as a form of risk mitigation for the lender.

- States can issue guarantees for municipal borrowing only with the approval of the state's Department of Finance. However, the criteria for the issuance of guarantees, the authorization process and its timing are unclear in most states.[20]

Appendix 1 and Appendix 2 provide a comparison of borrowing regulations between the five most populous states in India (Bihar, Uttar Pradesh, West Bengal, Maharashtra, and Madhya Pradesh).

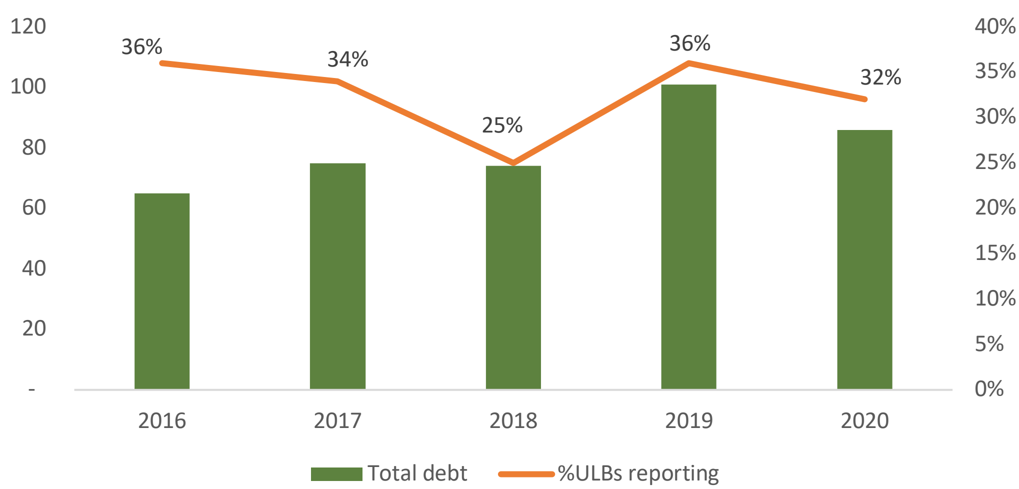
Penalties related to public debt management (ex-post procedures): The process in the event of local government default in India is vague and the data is unreliable. There is no municipal bankruptcy process provided for at federal level or state levels and defaults (or "restructurings") are usually handled through ad hoc negotiations involving the borrowing municipality, the relevant state government, and the investor.[21]

Recently, the federal *Insolvency and Bankruptcy Code* (IBC) of 2016 - the bankruptcy law of India - aimed to consolidate the existing framework by creating a single law for insolvency and bankruptcy. It is not clear, however, if this law applies to ULBs or only to private corporations since there is no mention of local governments in this law.[22]

Debt management

Aggregate debt levels: Total debt levels for Indian ULBs are low (86 billion Indian rupee or USD 1.2 billion), representing only 4% of total ULB revenues in 2018. However, as can be seen from figure 1, since only about 32% of ULBs reported debt levels in 2020, the picture is not complete, and the debt is likely underestimated. A World Bank report (2020) estimates that ULBs aggregate debt in 2018 is almost twice what the Ministry of Housing and Urban Affairs reported (131,000,000,000 Indian rupee or USD 1,922,000,000). Total reported ULB debt increased by almost 12% in real terms from 2016 to 2020. ULB's borrowing as a percentage of GDP is very small and it has remained around 0.04% of GDP for the last 10 years.[23]

Figure 1 Debt financing in ULBs (LCU -billions) and % of ULBs reporting



Source: CityFinance.in from Ministry of Housing and Urban Affairs and author's calculations

Lenders and types of instruments: ULBs can borrow from government institutions, banking institutions, specialized infrastructure finance entities and from the capital market. State Financial Institutions (SFIs) such as Housing & Urban Development Corporation Ltd (HUDCO)[24] and Life Insurance Corporation of India

(LIC) lend to ULBs for urban infrastructure and social purposes. As far as banking institutions go, Scheduled Commercial Banks (SCB)[25] with state or federal ownership are the most active lenders for ULBs. Finally, financial intermediary funds, such as specialized infrastructure finance entities[26] and sector-specific municipal development funds[27] have been financing municipal infrastructure projects. Box 2 provides an example of a state-specific development fund.

Box 2 Tamil Nadu Urban Development Fund (TNUDF)

The Tamil Nadu Urban Development Fund (TNUDF) was established by the Government of Tamil Nadu in 1996, as a Trust under the Indian Trust Act 1882, to finance the implementation of urban infrastructure projects in the State of Tamil Nadu. TNUDF was the first Public Private Partnership between the Government of Tamil Nadu (with 71.5% share) and three financial institutions (ICICI, HDFC, and IL&FS) (21.5% share) for providing long-term debt for civic infrastructure in a non-guarantee mode.

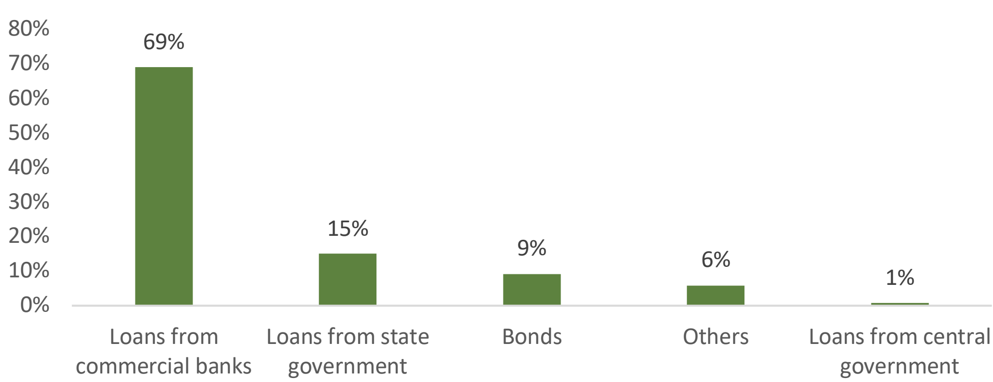
All categories (Corporations, Municipalities and Town) of Urban Local Bodies (ULBs) in the State of Tamil Nadu and Chennai Metropolitan Water Supply & Sewerage Board (CMWSSB) are eligible to receive financial assistance through loans for urban infrastructure projects.

Source: World Bank (2011) and World Bank (2015)

Scheduled Commercial Bank loans to ULBs tend to have tenors of 3 to 7 years, with longer loans being offered by HUDCO (up to 15 years), or Life Insurance Corporation of India (from 5 to 15 years). State guarantees, though less common, are still required by HUDCO and by the dominant state-owned banks within a region.[28]

As noted above, ULBs can also sell bonds on the capital market (though municipal bonds represent a small portion of the capital market in India). Municipal bonds usually have a tenor of 5-10 years and a fixed interest rate between 8 and 10%. ULB bond issuance has had intermittent progress over the years. Between 1997-2010, ULBs issued 25 municipal bonds. Between 2011 and 2016, there was no municipal bond issuance possibly due to low ULBs creditworthiness and a cumbersome process of issuing bonds. In 2015, however,[29][30] SEBI's new Municipal Bond Regulations of 2015 (amended in 2017) improved the municipal bond market by providing a well laid out process for municipal bond issuance. The regulations prescribe the eligibility, terms and conditions for public issuance including tenure, credit rating, minimum subscription, accounting, auditing, and reporting requirements and other disclosures.[31] In 2017 Indian municipalities started to issue bonds again. 8 bonds have been issued by 6 ULBs in the period from 2017 to 2020. Tenors of the issuances vary between 5 and 10 years, with an average fixed interest rate of 9 % (from a minimum of 7.59% to a maximum of 10.23), and an average issue size of 5.5 billion INR (or USD 80 million). Figure 2 highlights ULBs main lenders and instruments as percentage of total debt in 2020.

Figure 2: Lenders and instruments as percent of total debt (2020)



Source: CityFinance.in from Ministry of Housing and Urban Affairs and author's calculations

Use of Special Purpose Entities and Public-Private Partnerships: While at the national level and state level India's SPEs such as utility companies, Special Purpose Vehicles (SPV) and State-Owned Enterprises (SPE) have flourished, research indicates that there is limited use of municipal-owned companies.

While public private partnerships (PPPs) are gaining prominence in policies related to urban infrastructure development. Municipal PPPs awarded in the last 20 years (around 134 projects with project cost of ~ USD 5.5 billion) suggest that PPP-structure usage has declined after peaking between 2007 and 2012.

Most PPPs are used for water, waste management and transportation projects. In 2018, five states, *Maharashtra, Tamil Nadu, Uttar Pradesh, Gujarat, and Andhra Pradesh* had 71% share by project value of ULBs PPPs, and 65% share in volume terms.[32]

The lack of capacity in the ULBs is one major obstacle to implementing successful PPPs. Also, inadequate monitoring, transparency and accountability have adversely impacted the performance of municipal PPPs projects in India.[33]

Transparency & open data: ULBs are bound under the Right to Information Act (RTI Act) and under public disclosure legislation[34] enacted by respective state governments. ULBs publish information pertaining to various facets of municipal governance such as: personnel, particulars of administrative structure, finances and operations.[35] However, most ULBs do not report on time. In 2020, only 32% of ULBs reported their public finance data to the Ministry of Housing and Urban Affairs and only 3% of ULBs have consistently reported their financial information for the past 6 years.[36] Only 4 out of the 36 largest cities in India reported their financial information consistently in the past 6 years. Furthermore, most accounts are not externally audited and the classification of accounts is not consistent. The lack of transparency hinders ULBs' creditworthiness and their ability to borrow.[37]

Official, publicly available statistics on liabilities and borrowing

Item	***Total liabilities***	***Total liabilities breakdown by level of government***	***Sources of borrowing breakdown***	***Borrowing instruments breakdown***
Official source(s)	Ministry of Housing and Urban Affairs	Ministry of Housing and Urban Affairs	Ministry of Housing and Urban Affairs	Ministry of Housing and Urban Affairs
Latest update; (periodicity)	2020, (annual)	2020, (annual)	2020, (annual)	2020, (annual)

Financial & debt management: Aggregate borrowing is low, and it accounts for only 4% of total ULB revenues.[38] However, as previously noted, given the lack of consistent reporting, it is not possible to accurately estimate total aggregate debt. There are many reasons for low ULB borrowing levels. While a low and decreasing debt to revenue ratio implies greater capacity to borrow[39] and increasing urbanization and growing investment needs will likely increase demand for borrowing, an increase in transfers from the central government might reduce borrowing needs. It is important to note that while borrowing has been decreasing for the past ten years, transfers from both the states and the union government have been increasing, crowding out the demand for borrowing. As can be seen from Table 1, from 2011 to 2018, state transfers went from 0.28% of GDP to 0.33% and central government transfers went from 0.07% to 0.12%. Furthermore, own revenue decreased from 0.48% of GDP to 0.43% in the same period. Finally, ULBs' expenditures have also decreased relative to GDP, going from 0.82% to 0.78% of GDP.[40]

Table 1: ULBs' Finance Indicators (% of GDP)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Municipal Own Revenue	0.48%	0.49%	0.53%	0.5%	0.51%	0.51%	0.47%	0.43%
Central Transfers	0.07%	0.07%	0.08%	0.09%	0.08%	0.10%	0.13%	0.12%
State Transfers	0.28%	0.30%	0.34%	0.35%	0.35%	0.34%	0.34%	0.33%
Borrowings	0.04%	0.03%	0.02%	0.03%	0.03%	0.03%	0.03%	0.02%
Municipal Revenue Total	0.94%	0.98%	1.05%	1.06%	1.05%	1.06%	1.05%	1.00%
Municipal Expenditure	0.82%	0.81%	0.83%	0.83%	0.86%	0.86%	0.81%	0.78%

Source: CCI-LGDB calculations based on ICRIER, 2019

A recent World Bank report (2021) highlights that Indian ULBs are suffering both from a shortage of borrowing demand and borrowing supply.

As it pertains to the demand side, constraints to borrowing include: (i) Weak financial and functional devolution leading to narrow revenue base and debt capacity, (ii) Lack of a multi-year investment planning frameworks and a bankable projects pipeline, (iii) a tied fiscal grant transfer-led investment regime that is crowding out non-grant financing, and (iv) Weak information disclosures limit scrutiny and makes investors wary. Supply-side constraints include a poorly developed investor ecosystem (attributable to low volume of issues), a skew of India's bond market towards higher credit rated paper, inadequate regulatory incentive, and municipal bonds getting slotted with corporate bonds under insurance and pension regulations.[41]

Constraints to borrowing to the supply side include: (i) a small scale of issuance is not likely to attract new investors and without a diversified base of investors, a competitive market for issuance does not emerge, (ii) India's bond market is skewed towards higher rated credit, but only few municipalities meet these credit thresholds, (iii) the lack of clear rule-based regulations at the state level makes banks and investors more reluctant to invest, (iv) ULBs Bank borrowing are constrained by a spike in non-performing loans to infrastructure.[42]

Several ULBs have been rated recently as part of their preparations for issuing municipal bonds. In 1995, the Ahmedabad Municipal Corporation (AMC) was the first ULB to request a credit rating from one of India's leading credit rating agencies, Credit Ratings and Information Services of India Ltd. (CRISIL). At that time, no credit rating had ever been performed for an Indian municipality. As of 2021, 223 cities across all states have received credit ratings from agencies such as CRISIL. 95 of these cities received "investment grade" ratings (BBB- or above), 128 received credit ratings below the investment grade. [43]

Subnational government finances: key ratios

Level of government	*Total reported liabilities, % of total revenue*	*Borrowing (loans & bonds), % of total reported liabilities*	*Debt service, % of total expenditures*	*Operating surplus, % of total revenue*
Local (ULBs)	4% (2018)	82% (2018)	0.4% (2018)	22% (2018)
All sub-national governments (ULBs + states)	135% (2020)	73% (2020)	12%[44] (2020)	16% (2020

Source: WB CCI-LGDB

Main legal provisions	
Approved lenders:	Government/public banks, commercial banks, International financial Institutions, financial intermediary funds, capital markets.
Instruments:	Currency and deposits, loans, and bonds.
Central govt guarantee:	There are no central government guarantees. State guarantees of municipal bonds in India are common, but not the rule.[45]
Revenue intercept (pledge) of government transfers:	There is no central government regulation regarding a revenue intercept. Some states allow local governments to pledge collateral to lenders such as property and own-source revenue streams.
Insolvency framework:	There is no specific insolvency regime for local governments.[46]
Accounting basis:	Accrual basis, but some local bodies are still preparing their financial statements under cash basis accounting and are yet to adopt accrual basis.
Credit rating requirements for borrowing:	None found, the union government has embarked on a program of rating Urban Local Bodies, but this is not a mandated requirement for obtaining credit.
Debt capacity limit:	Yes, in some states.[47]
Debt service limit:	Yes, in some states.[48]
Reporting of contingent liabilities:	In India ULBs are required to report contingent liabilities unless the possibility of any outflow in settlement is remote. The National Municipal Accounting Manual establishes that the following shall be disclosed by the ULB in the 'Statement on Contingent Liabilities': • Amount of Capital Contracts remaining to be executed and not provided for • Amount of claim in respect of suits filed against the ULB for which the ULB may be liable, in case the ULB loses suits • Claim against the ULB not acknowledged as debts • Other money for which the ULB is contingently liable.
Reporting of Joint Ventures & Public Private Partnerships:	The Accounting Standard for Local Bodies (ASLB) 32, 'Service Concession Arrangements: Grantor', issued by the Council of the Institute of Chartered Accountants of India is broadly consistent with IPSAS 32. ULBs are required to register the assets of PPP contracts and the liabilities corresponding to them to virtually all contract assets.

Significant legal and regulatory instruments	
Constitutional amendments (GoI)	
Local Government Loans Act (1914)	Grants Local Authorities the power to contract loans.
73rd Constitutional Amendment Act (1992)	Outlines powers of self-governance of *Panchayats* (rural governments) such as giving Panchayats a distinct status; and reinforcing allocation of financial and administrative powers from States to local governing bodies of *Panchayats* providing adequate finance through securing authorization from State legislature.
74th Constitutional Amendment Act (1992)	Subject to implementing state legislation, the amendment empowers the ULBs to mobilize resources independent of the state governments for the provision, operation, and maintenance of urban services as listed in twelfth schedule[49] of the Federal Constitution.
The Insolvency and Bankruptcy Code, 2016 (IBC)	The IBC is the bankruptcy law of India which seeks to consolidate the existing framework by creating a single law for insolvency and bankruptcy. It is not clear if this law applies to ULBs which are treated as public bodies or only to corporations.
Security and Exchange Board of India (SEBI) regulations	
Securities and Exchange Board of India (Issue and Listing of Debt Securities by Municipalities) Regulations (2015)	This regulation establishes a framework for issue and listing of Municipal Bonds.

Organizational roles and responsibilities: debt	
National govt. regulatory & process	
Securities and Exchange Board of India (SEBI)	In 2015 SEBI released detailed guidelines for the issue and listing of local government bonds. The aim was to render the bonds safer for investors. Before proceeding to the capital market, a local government needs to have authorization from the local, state, and central (if it is to have tax-free status) governments to contract debt, as well as approval from SEBI.
Finance Commission	Finance Commissions are periodically constituted (every 5 years) by the President of India, under Article 280 of the Constitution, to recommend the sharing and distribution of between the federal government and states. The last Finance Commission was in 2017.
Reserve Bank of India (RBI)	RBI has the powers to regulate lenders and lending instruments. The RBI recently eased rules for foreign investors by allowing them to invest in municipal bonds under prescribed limits to broaden access of non–resident investors to debt instruments in India.
Ministry of Finance (MoF)	The Ministry of Finance regulates the tax regime surrounding municipal investment
Main lenders	
Government institutions:	
Housing & Urban Development Corporation Ltd. (HUDCO)	HUDCO supports ULBs financing needs through grant in aids and municipal loans. HUDCO's lending is primarily in the energy and commercial sectors. HUDCO also loans to ULBs for supporting the housing needs of urban poor. HUDCO must borrow from banks and

	financial institutions at the current market rates and requires state guarantee.
Life Insurance Corporation of India (LIC)	LIC is the largest life insurance company in the country and India's largest investor. LIC has been mainly financing water supply and sewerage with state government guarantees.
Banking institutions:	
Scheduled commercial banks (SCBs)	As of 2011, India had 88 SCBs: 27 public sector banks, 31 private banks, and 38 foreign banks. SCBs with state or Government of India ownership are the most active in the municipal space. Especially dominant are the State banks in each state. Lending seems to be based on local banking relationships.[50]

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Appendix 1: Municipal finance laws in the 5 largest states (%total population)

Statutes and Manuals directly governing Municipal Finance Management in the State	1.Bihar Municipal Act, 2007 (BMA) 2.Bihar Municipal Accounting Rules, 2014(BMAR) 3.Bihar Municipal Accounting Manual, 2014 (BMAM) 4.Bihar Municipal Budget Manual (BMBM)	1.The Uttar Pradesh Municipalities Act, 1916 (UPMA) 2.The Uttar Pradesh Municipal Corporation Act, 1959 (UPMCA) 3.The Uttar Pradesh Local Fund Audit Act, 1984 (UPLFA) 4.The Uttar Pradesh Municipalities (Public Disclosure of Information) 5. Rules, 2010 (UPPDL)	1.The West Bengal Municipal Act, 1993 (WBMA) 2.Kolkata Municipal Corporation Act, 1980 (KoMCA)	1.Maharashtra Municipalities Act, 1965 (MMA) 2.Mumbai Municipal Corporation Act, 1949 (MMCA) 3.Maharashtra Municipal Accounts Code, 2013 (MMAC)	1.The Madhya Pradesh Municipalities Act, 1961 (MPMA) 2.The Madhya Pradesh Municipal Corporation Act, 1956, (MPMCA) 3.Madhya Pradesh Municipality (Public Disclosure of Information) 4. Rules, 2009 (MPPDL) 5.Madhya Pradesh Municipal Accounts Manual, 2007 (MPMAM)

Appendix 2: Municipal borrowing laws in the 5 largest states (total population)

Criteria	*Bihar*	*Uttar Pradesh*	*West Bengal*	*Maharashtra*	*Madhya Pradesh*
Is borrowing permitted?	Yes [BMA Sec 106] [1]	Yes [UPMCA Sec 154] [2]	Yes. [WBMA Sec 72] [3] [KoMCA Sec 134]	Yes [MMA][4] [MMCA Sec 109]	Yes [MPMCA Sec 102][5]

[1] It applies to all municipal governments (municipal corporations, municipal councils and panchayats)
[2] It applies to Municipal Corporations only
[3] It extends to the whole of West Bengal, except Calcutta
[4] It applies to Municipal Councils, Panchayats and Townships
[5] It applies to Municipal Corporations only

Instruments	a. Loans. Municipal Bonds. Debentures [BMA Sec 106, 109, 116 & 120]	a. Debentures b. Loans on the security of any immovable property and/or any taxes, duties, tolls, fees and dues [UPMCA Sec 154]	a. Loans. Debentures [KoMCA Sec 134 & 137] [WBMA Sec 72]	a. Debentures. Loan on the security of any immovable property or on all the taxes or of any tax which it is authorized to levy [MMCA Sec 109]	a. Loans. Debentures [MPMCA Sec 102 & 105]
Borrowing purposes	a. Construction of works. Acquisition of lands and buildings c. Paying of any due to the Government or d. Repayment of a loan raised. Acquisition of public utility concern. Purchase of vehicles, locomotive engines, boilers and machinery g. Any other purpose stated under this act [BMA Sec 106]	a. Defraying any costs, charges or expenses. For discharging any loan contracted or any other loan or debt for the repayment of which the Corporation is liable. no loan shall be raised for the execution of any work other than a permanent work which expression shall include any work of which the cost should, in the opinion of the State Government, be spread over a term of years [UPMCA Sec 154]	a. Construction of works. Acquisition of lands and buildings c. Paying of any due to the Government d. Repayment of a loan raised e. Acquisition of public utility concern. Purchase of vehicles, locomotive engines, boilers and machinery [KoMCA Sec 134]	a. Defraying any costs, charges or expenses, incurred or to be incurred b. Discharging any loan contracted under this Act or any other loan or debt c. For carrying out the purposes of this Act, including the advance of loans [MMCA Sec 109]	a. For construction of works b. For the acquisition of land c. For the payment of a loan raised or any other loan or debt for the repayment of which the Corporation is liable. For carrying out the purposes of the Act, including the advance of loans authorized [MPMCA Sec 102]
Borrowing Limits	Yes. [BMA Sec 106 & 107] [BMA Rule 116]	Not found	Yes, 15% of annual value of land and building [KoMCA Sec 135]	Not found	Yes [MPMCA Sec 104]

State Government approval required	Yes [BMA Sec 107(1)]	Yes. [UPMCA Sec 154]	Yes [KoMCA Sec 134(1)]	Yes [MMCA Sec 109]	Yes [MPMCA Sec 104(1)]
Borrowing Conditions	Yes [BMA Sec 107(1)] [BMA Sec 107(2)] [BMA Rule 117]	Yes [UPMCA Sec 154]	Yes [KoMCA Sec 134 (1) & (2)]	Yes [MMCA Sec 109]	Yes [MPMCA Sec 104 (1)] [MPMCA Sec 104 (2)]
Maximum loan repayment period prescribed	Not found	Yes, 30 years [UPMCA Sec 154 & 156]	Yes, 60 years [KoMCA Sec 138]	Yes, 60 years [MMCA Sec 109]	Not found
Provisions to providing guarantees	Not found	Not found	Not found	Not found	Not found
Assets pledge	A Municipality may pledge its movable and immovable assets, lands, buildings and revenues from tax in special escrow accounts as security for the Municipal Bonds issued for development of urban infrastructure. [BMA Sec 122]	Not found	Not found	Not found	Not found

Notes

[1] CCI-LGBD examines borrowing at the local government level. In most countries, this can be broken up into regional governments and local governments. In India's case, "local governments" includes Urban Local Bodies. *Panchayat* entities are not enabled to borrow under law.
[2] In 2017
[3] CPI adjusted numbers with 2016 as base year: www.worldbank.org/en/research/brief/inflation-database
[4] Ministry of Urban Development report (2011)
[5] Glasser, 2020
[6] 15th Finance Commission
[7] World Bank, 2011
[8] Glasser, 2020
[9] See Glasser, Matt. 2020. *Municipal Bonds in Three Countries: India, South Africa and the United States*. Journal of Comparative Urban Law and Policy: Vol. 4 : Iss. 1 , Article 15, 96-132. Available at: https://readingroom.law.gsu.edu/jculp/vol4/iss1/15
[10]
[11] Glasser, 2020
[12] SNG-WOFI, 2019
[13] OECD, 2016
[14] The State Development Loans (SDLs) market is the illiquid segment of the Indian bond market.
[15] The Institute of Chartered Accountants of India, 2018
[16] World Bank, 2020
[17] Government of India, 2021
[18] such as the purpose, authorization, limits, financial characteristics, tenor, securities offered, sources of repayment, accounting, reporting and local government disclosure related to borrowing or bond issues
[19] in case of municipal default, as well as reorganization and debt work-out arrangements.
[20] World Bank, 2011
[21] World Bank, 2011
[22] World Bank, 2020
[23] ICRIER, 2019
[24] HUDCO requires State guarantees for their municipal loans, despite difficulties in enforcing them.
[25] Public sector banks, either nationalized or owned by a government agency, Indian privately-owned banks, foreign banks licensed in India
[26] India Infrastructure Finance Company Ltd (IIFC), Infrastructure Development Finance Company Limited (IDFC), Infrastructure Leasing & Financial Services Limited (IL&FS)
[27] Pan-India Pooled Municipal Debt Obligation (PMDO) Facility and State specific Tamil Nadu Urban Development Fund (TNUDF)
[28] World Bank, 2011
[29] The Institute of Chartered Accountants of India, 2018
[30] As per the Fourteenth Finance Commission, the cost recovery and the collection efficiency of user charges remain far below the service level benchmarks specified.
[31] The Institute of Chartered Accountants of India, 2018
[32] World Bank, 2020
[33] Ngullie et al., 2021
[34] The enactment of Public Disclosure Law refers to making appropriate provisions in the state-level municipal statute(s) and/or other state-level statutes to ensure that these disclosures are mandatory (USAID, 2010).
[35] Ministry of Finance, 2017
[36] According to Cityfinance.in
[37] 15th Finance Commission
[38] ICRIER, 2019
[39] Increased revenues from an. increasingly wealthy population and growing economy would also increase borrowing capacity.
[40] ICRIER, 2019
[41] WB, 2020

[42] WB, 2020
[43] CityFinance.in, 2021
[44] Interest payments
[45] From Glasser, 2020.
[46] From World Bank, 2020 "In case of corporate debt, there are clear mechanisms that the RBI has put in place for debt recovery including Debt tribunal Act, SARFARESI and more recently the Insolvency and Bankruptcy Code (IBC). It is not clear these statutes apply to ULBs which are treated as public bodies."
[47] In Madhya Pradesh ULBs debt stock limit cannot be more than twice the annual value of buildings and lands
[48] In West Bengal ULBs debt service limit is 15% of annual value of buildings and lands
[49] The Twelfth Schedule of the Constitution lists functions of the urban local bodies such as: urban planning, roads and bridges, poverty alleviation, fire services, water supply, etc.
[50] World Bank, 2011

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