

INDIAN MUNICIPAL BOND MARKET

**Green Municipal Bonds : A ~Rs. 10,000
crore issuance opportunity over
FY2027-2030**

September 2026



List of abbreviations used

AMRUT	Atal Mission for Rejuvenation and Urban Transformation	SFA	Sinking Fund Account
CRA	Credit Rating Agency	SGrB	Sovereign Green Bond
DFI	Development Finance Institution	STP	Sewage Treatment Plant
DPR	Detailed Project Report	ULB	Urban Local Body
DSR	Debt Service Requirement	USD	United States Dollar
DSRA	Debt Service Reserve Account	WTP	Water Treatment Plant
ESG	Environmental, Social and Governance	YoY	Year-on-Year
FY	Financial Year		
G-Sec	Government Security		
IDF	Infrastructure Development Fund		
IPA	Interest Payment Account		
MAHUA	Ministry of Housing and Urban Affairs		
MC	Municipal Corporation		
NaBFID	National Bank for Financing Infrastructure and Development		
PPP	Public Private Partnership		
RBI	Reserve Bank of India		
RE	Renewable Energy		
SDL	State Development Loan		
SEBI	Securities and Exchange Board of India		



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Green municipal bonds are gaining traction, with cumulative issuances of ~Rs. 1,550 crore since FY2021 and nearly half of FY2026 municipal bond issuances being green.

Despite this progress, green municipal bonds represented only 24% of municipal bond value and 28% of issuance volume over the last decade, indicating substantial headroom for growth.



Large urban infrastructure financing requirement creates a sizeable funding pool: ICRA estimates India's urban infrastructure investment requirement at around Rs. 56 lakh crore over FY2027-FY2030 (excluding affordable housing). While budgetary support, scheme-linked grants and municipal own resources are expected to remain the principal funding sources, nearly Rs. 3 lakh crore may require commercial-debt financing, highlighting the potential role of municipal and green municipal bond issuances. This underscores the need for broader mobilisation of long-tenor institutional capital.



Availability of eligible green projects is unlikely to be the key bottleneck: Water supply, sewerage and wastewater treatment, solid waste management, renewable energy and climate-resilient infrastructure are integral to municipal service-delivery mandates and substantially overlap with recognised green-finance categories. Therefore, the underlying availability of eligible projects is unlikely to be the primary constraint on the development of the green municipal bond market.



Issuer readiness materially narrows the investible universe: While the underlying project opportunity is substantial, municipalities with adequate credit quality, proper financial disclosures, repayment visibility, project preparation and transaction readiness will be the ones who can access the capital market in a sustainable manner. As a result, market-access filters will materially reduce the investible issuer universe despite the broader infrastructure requirement.



Investor appetite is evident; supply-side constraints remain the key challenge: Recent green municipal bond transactions witnessed healthy oversubscription levels (average ~5x) and continue to offer a visible yield premium over sovereign (80-190 bps) and state benchmarks (45-155 bps). These trends indicate that investor appetite for municipal green finance is developing, while supply-side constraints remain a more significant impediment for market expansion than capital availability.



Policy support and market-development initiatives are gradually addressing supply-side barriers: Dedicated green bond frameworks, fiscal incentives, issuer handholding, transaction-support mechanisms and evolving issuance structures are improving issuer preparedness and execution capability. As these initiatives broaden the pool of bond-suitable municipalities, ICRA estimates a base-case green municipal bond issuance potential of ~Rs. 10,000 crore over FY2027-FY2030, with further upside as issuer readiness improves.

What's Inside?

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2 Opportunity



3 Supply



4 Demand



5 Enablers



6 Future Potential



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