



KAMARAJ IAS ACADEMY
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Masala Bonds

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The Enforcement Directorate's (ED) recent decision to issue notices to the Kerala Chief Minister in the KIIFB masala bond investigation marks a significant escalation in a long-running conflict between the LDF government and central agencies over the state's financing model.

About Masala Bonds

They are rupee-denominated bonds issued outside India by Indian entities

The International Finance Corporation (IFC), an arm of the World Bank, issued the first masala bonds in October 2013 as part of its \$2 billion dollar offshore rupee programme.

They are debt instruments which help to raise money in local currency from foreign investors

That means the currency risk—if exchange rates change—is on the investor, not the issuer. This helps Indian companies manage their risks better.

To offset the risk of exchange rate fluctuations, bonds typically offer attractive interest rates that are frequently greater than those offered in the investors' home countries.

Both the government and private entities can issue these bonds

Who Can Invest?

Investors outside India who would like to invest in assets in India can subscribe to these bonds

Any resident of that country can subscribe to these bonds which are members of the Financial Action Task Force (FATF)

That includes individuals, institutions, and even financial organisations from countries that follow international standards for fair and secure investing, like those under IOSCO (International Organisation of Securities Commissions)

It also covers multilateral and regional financial institutions of which India is a member.

Maturity Period:

It depends on the size of the bond

For bonds up to USD 50 million, the maturity is usually 3 years

For larger amounts, it can go up to 5 years, giving investors more flexibility based on their goals.

What Can The Money Be Used For?

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The funds raised through Masala bonds are generally earmarked for productive and regulated purposes.

The proceeds can fund affordable housing, infrastructure, refinance rupee loans, or meet corporate working capital requirements.

Activities like buying land, investing in the stock market, or funding real estate projects are off-limits—unless they've received specific government approvals