Agra & Varanasi among 4 UP cities set to issue municipal bonds to raise money for infra development

Agra, Kanpur, Prayagraj and Varanasi to issue municipal bonds by year-end, joining Lucknow and Ghaziabad. UP officials say municipal bonds bring transparency.

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New Delhi: The municipal corporations of four Tier-2 cities in Uttar Pradesh — Agra, Kanpur, Prayagraj and Varanasi — will issue municipal bonds by the end of this year to raise funds from the market for infrastructure development projects.

With this, Uttar Pradesh will become one of the few states in India and the only northern state to have six cities — the other two being Lucknow and Ghaziabad which issued municipal bonds in 2020 and 2021 — raise money from the market through bonds.

Municipal bonds are debt instruments that are issued by municipal corporations to raise funds from the market to build sewer systems, water supply systems, schools, and other civic infrastructure.

While issuing the bond, civic bodies promise investors a specified interest rate and state a time period when the principal will be returned along with interest. For this, civic agencies have to create an account or block a portion of their regular revenue source for payment of the money to investors.

UP government officials told ThePrint that the bond initiative has led to major fiscal reforms in the municipal corporations, bringing transparency and accountability.

“Till a few years ago, one couldn’t have thought of these cities raising money from the market. We were always dependent on the state government for funds,” said a senior official from the Kanpur Municipal Corporation.

According to UP government officials, the state’s focus is on urban development, infrastructure development and upgradation, and addressing basic civic governance and service-related issues.

Amrit Abhijat, principal secretary in the urban development department, told ThePrint: “The UP government believes municipal bonds will emerge as a credible source for funding innovative infra projects and planning for the long term.”

“We are not going for money only. The most important thing is to set up a structure which is lean and an account book that is rationalised. In order to get a good credit rating, you have to be fiscally prudent,” he added.

While the amount the civic bodies plan to raise is not much — between Rs 50 crore and Rs 100 crore each for water supply and other essential service projects — government officials said the exercise has brought about a change in the way finances are managed.

“For issuing of the bond, all annual accounts and balance sheets have to be audited, asset-valuation done and service level benchmarks and bank balance put in order. This leads to better municipal governance,” Abhijat pointed out.

“So far, asset mapping was not being done by urban local bodies. Once the exercise is complete, the corporations will be in better financial condition.”

The UP government is also exploring the possibility of setting up a financial intermediary, which can assist other urban local bodies, especially of smaller cities and towns, to raise money from the market.

“We are exploring the possibility of setting up an Uttar Pradesh finance authority or a similar body based on the work done by states such as Gujarat, Tamil Nadu etc, to help cities issue municipal bonds,” Abhijat said.

The development of civic infrastructure in most cities, especially Tier-2 and Tier-3 cities, has not kept pace with the fast-paced urbanisation in India.

Municipal finance and governance experts told ThePrint that renewed focus on urban development will help cities in the long run.

“In large and fast urbanising states like UP, it is a positive sign that they have started paying attention to urban development, which was not the case earlier. In the past few years, we have seen the state is taking urbanisation and urban development far more seriously,” Srikanth Viswanathan, chief executive officer of Janaagraha, a Bengaluru-based think-tank that has worked extensively on the financial health of municipalities, told ThePrint.