

Evaluating the Financial Health of Indian Cities: A Diagnostic Report

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Abstract

The financial health of an urban local body (ULB) is indicated by a set of closely interrelated factors and not merely income-expenditure balance. In fact surplus revenue is often required by statute and may not be a sound indicator of the financial health of a ULB. These questions are of fundamental importance under the recently launched Jawaharlal Nehru Urban Renewal Mission (JNNURM). Based on a sample of 17 out of 63 cities under JNNURM, this paper addresses the following question: Why do some municipalities have better financial performance relative to others and what explains the differential financial performance of municipalities? The paper investigates this question in relation to (i) the impact of fiscal domain on their performance, (ii) the effect of state transfers on the financial performance of municipalities; and (iii) the effect of functional role of municipalities on their performance. The paper is organized accordingly with a final section on the summing up of the analysis added.

Keywords: Municipal Finance, Urban Local Body (ULB), Seventy-Fourth Constitutional Amendment (74th CAA), and Urban Renewal