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**A SEMINAR**

**Evaluating the financial health of Indian cities: a diagnostic report**

by

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**Venue:**

**Committee Room (1<sup>st</sup> Floor)**  
National Institute of Urban Affairs  
Core 4B, India Habitat Centre,  
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All are cordially invited

## **Evaluating the financial health of Indian cities: a diagnostic report**

### **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 13 out of 63 cities in JNNURM, this paper examines the following set of inter-related questions: What are the important indicators that explain the financial health of a municipality? What are the problems in inter- and intra-state comparisons? What is the impact of population size on financial performance? Why have some ULBs (or municipalities) performed 'better' in terms of high per capita incomes and expenditures? Does high per capita expenditure indicate better financial health? Why do some municipalities have greater dependency on state transfers? Can municipalities be compared on the basis of their financial performances alone?

Our preliminary findings can be summarized as follows. First, ranking of municipalities with regard to financial performance should be done with care and must take into consideration their tax and non-tax domains as well as their functional domains. Municipalities with smaller (and poorly implemented) tax domain have greater dependency on state transfers even when their functional domain is smaller. Second, with regard to revenue, octroi levying cities have outperformed all other cities in own revenue generation, and abolition of octroi can seriously hamper their financial health and increase financial dependency on state governments. Non-octroi levying cities, however, such as those in Andhra Pradesh and Tamil Nadu, have started showing positive trends in own resource generation due to property tax and other reform initiatives. Thus, not only have octroi levying cities shown a negative growth rate on state dependency, so have those that instituted effective property tax reforms, e.g., Indore. Finally, as expected, most of the revenue expenditure is incurred on establishment and salaries and ranges from 37 to 73 percent of total expenditure (in Vishakapatnam and Jaipur, respectively). Expenditure patterns for municipalities are mixed: while some have shown significantly high growth rates, e.g., Vijayawada, Vishakapatnam, Coimbatore and Indore, others have shown negative growth e.g., Jaipur, Rajkot and Hyderabad. These findings have important implications for the nature, sequencing and pace of reforms under JNNURM.