# Urbanization in India: Financing Challenges

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**Abstract:**

The demand for the urban infrastructure investments in India is not wholly met through the own resources of the Urban Local Bodies (ULBs) and Government grants and transfers. This has necessitated the ULBs to search for other avenues for funding their requirements – both capital and operational. However municipal debt market in India, especially the bond market, has not developed to match the growing needs of urban infrastructure. This position paper studies the state of municipal debt market in India and the reasons for its slow development. The paper also gives a glimpse of the situation in similar emerging economies. The issues plaguing the bond market are mentioned with the intention of finding a solution to India's urbanization woes.

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# Urbanization in India: Financing Challenges

## Introduction

At the beginning of the 20th century, Mahatma Gandhi had declared "India's soul lives in its villages". As per 2011 census, 68.84% of Indians continue to live in 236,004 villages of varying sizes with a population of a mere 500 to 10,000+. The initial Plans also emphasized on the development of agricultural sector more than others. But over the years it has become evident that growth in the economy has to be achieved simultaneously through growth of urban India. There were 35 cities in India with a population of 1 million and more in 2001 which swelled up to 50 in 2011 and is predicted to be about 87 in number by 2031.[1] The contribution of the urban sector to the GDP is about 60%[2] and is imperative that sufficient public services are made available to achieve the full potential of India's growth story.

Urbanization results from the shift of dependence from agriculture to highly productive sectors of industry and services. Urban growth has magnified the demand for investment in roads, water systems, waste collection and such like facilities. The problems of urbanization and infrastructure development came into sharp focus after the Indian Government decided to dismantle the restrictive trade policy regime in 1991. With an open economy, more employment opportunities were created leading to greater demand for facilities. The need was accentuated with the increasing contribution by service and industry sectors at the rate of 9.4% and 6.9% of GDP respectively. As one of the fastest growing economies in the world, its GDP growth rate averaged 5.6% during 1991-01 and 7.7% between 2001 and 2011 coupled with a13.62% increase in the urban population. The High Powered Expert Committee (HPEC) Report estimates a further capital expenditure requirement in urban infrastructure to the tune of Rs.39.2 trillion between 2012-'32 as well as Rs.19.9 trillion for operations and maintenance of the infrastructure. The share of capital expenditure in the total expenditure requirement is estimated to rise from 44% to 53% in two decades.

Every country has its own dynamics with respect to its size, GDP, investment capacity and need for urbanization. At present India and China are riding on a wave of urbanization. At the beginning of India's first Five-Year Plan in 1951, India's urban population was 17% which exceeded that of China by 3%. But by 2005, China had raced ahead with an urbanization rate of 41% in comparison to India's 29%. By 2025, it is predicted that China would have 64% of its population living in urban areas while India would account for only 39%. By 2025, India and China alone will account for 62% of Asia's urban population and 40% of global urban population. Though the two economies have unique characteristics and differ from each other on several counts, they also share similarities like in the size of their population. But unlike India, China has tackled its urbanization problems in a different manner. It has invested on an average 10% of its GDP annually since 1990s in infrastructure development, a rate much higher than any other emerging economy.

**Box 1**

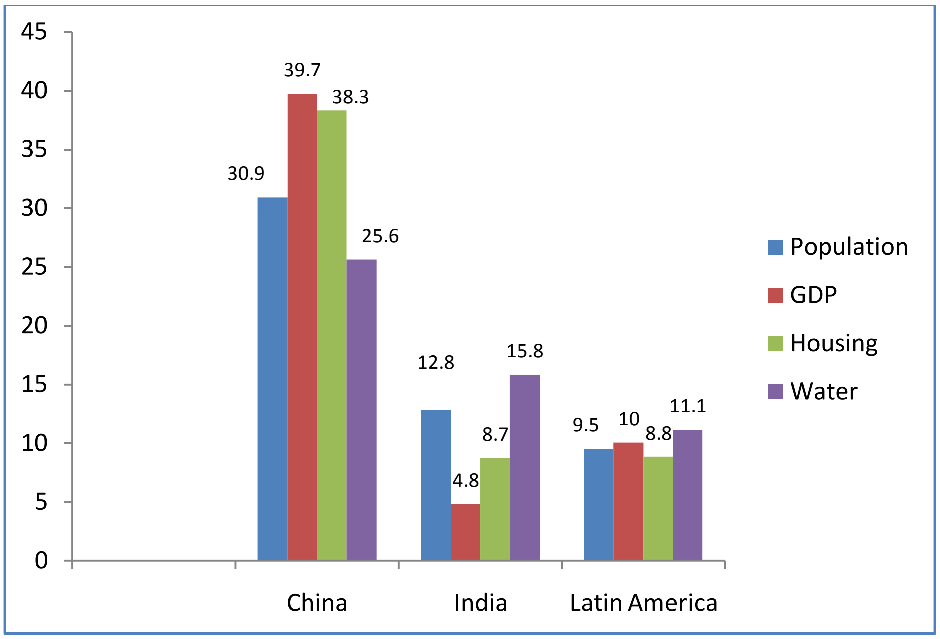
**Urban Development in China**

In November 2011, China broke its 17 year old ban on municipal bonds to fund its public projects. The objective was to move the local governments off their dependence on state-owned banks and steering them towards the bond market. It was also to bring in discipline and greater vigilance by the lenders. It was envisaged that it would result in a revision of the law governing local government budgets, entail modifications to the fiscal relationship between the Centre and local governments. The bond issues were limited to the provinces of Zhejiang and Guangdong and the municipalities of Shanghai and Shenzhen to raise a total of RMB 22.9 billion (US$ 3.57 billion) in 2011 through 3-5 year General Obligation Bonds. The city of Shanghai funded its $29 billion investments, half through the local taxes and user charges and other half through monetization of its land assets and commercial loans.

Previously, the central government had issued bonds on behalf of municipalities, with the Centre paying the principal and interest to investors after the debt matured, and the local bodies then repaying the central authority. The bond issues are of short duration –three to five years – and be issued against the mortgage of land owned by the municipal governments. But all the issues being 'General Obligation Bonds', China faces a challenge as there exists no legal mechanism that allows governments to levy specific taxes to support bond payments and the policy does not have an accurate way to measure and decrease risk.

Figure 1

**Contributors to Urban Growth 2010-2025** (in percent)




Source: Urban World: Cities and the Rise of the Consuming Classes.
*McKinsey Global Institute*

India on its way to urbanization has several unmet capital infrastructure needs both in terms of deferred replacement of aging assets and new construction. Private investment in income earning facilities is possible but more important avenue would be the domestic credit market. India at present does not have a strong primary market where the ULBs can reach out to finance their investments needs on a routine basis nor does it have an established secondary market where primary lenders can liquidate their investments or buy new credit investments.

## Background

Infrastructure services like water supply and sewerage, electricity, roads and waste management are the prime drivers of a nation's economic activity. With a teeming population of 1.2 billion, the capacity of the Government to provide for these essential services gets limited. According to the Ministry of Urban Development, the percentage of population residing in urban India in 2001 was 28 and would go up to 38% in 2026, which would constitute two-thirds of the aggregate population. Since the primary responsibility of providing the basic services continues to vest with the Government, the 74th Constitutional Amendment has recognized and devolved both authority and responsibility of providing and managing several of the services on the ULBs as the third tier of the Government. The term ULB includes municipal entities as well other executive bodies like Housing Boards, Water Boards which are arms of the State Government. (For the purpose of this paper, only Municipal bodies are referred to as ULBs.)

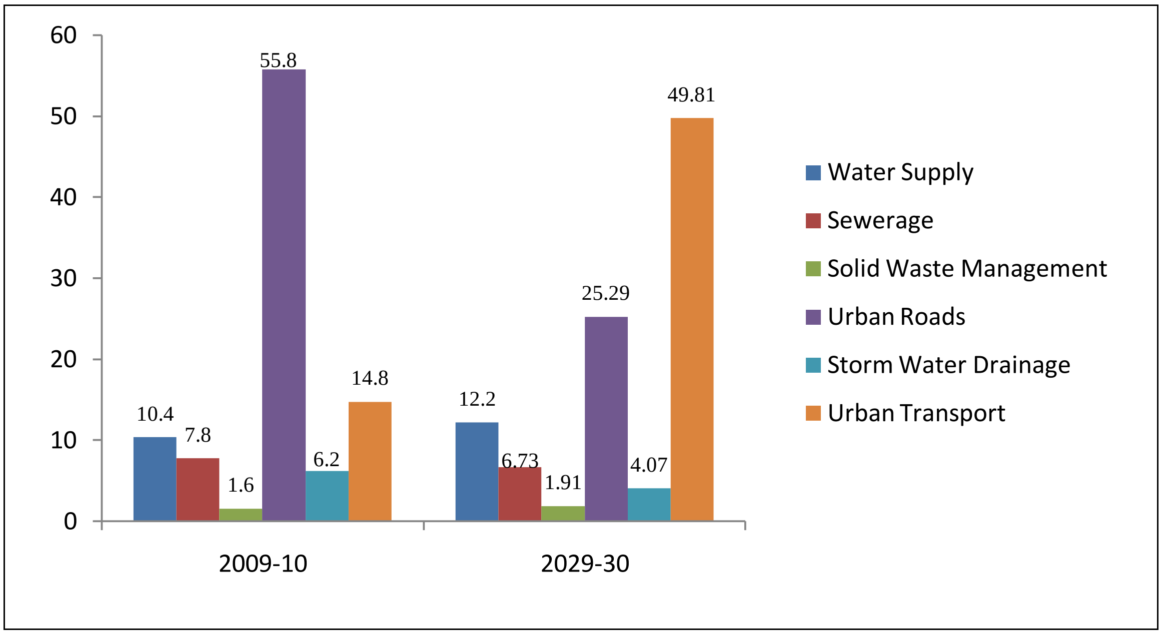
Municipal bodies have to ensure inclusive growth and optimal utilization of space as well as create and operate more infrastructure assets. But the constraint is that the fiscal space of the municipal bodies has been shrinking over the decades. A municipal entity's sources of funds are State Government Grants and transfers, Central Government grants as well as its own resources which include both tax and non-tax revenues. Tax revenue comprises of property tax, entertainment tax, Octroi (Maharashtra) whereas non-tax revenue include user charges for water supply, solid waste management and sewerage.

**Present Situation**

The total revenue of the Municipal entities for the year 2011-12 was 1.05% of the GDP, of which own sources of municipals in 2011-12 were about 50% of it. The Ministry of Urban Development states that while the requirement for the 63 JNNURM cities is estimated at Rs.27,68,220 million, the requirement of all the urban areas in the country stands at Rs.7,910,800 million.[3]The activity which witnessed the maximum investment during the XII Plan was urban roads but it is predicted that it would be replaced by the investment in urban roads by the end of 2030.

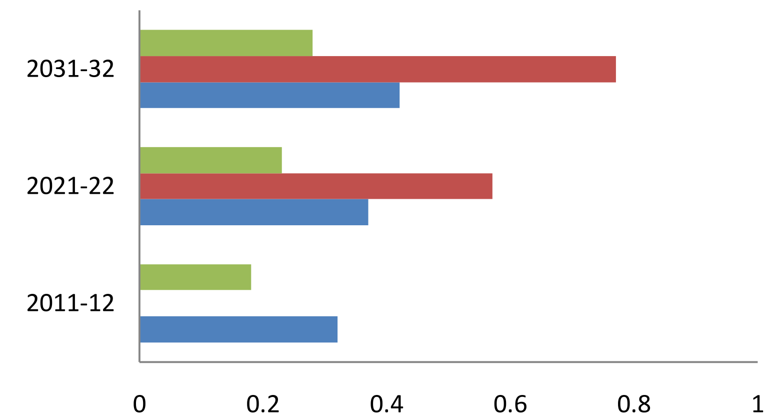
Figure 2

**Capital Expenditure of Municipal Bodies in India 2009-10 and 2029-30** (in percent)




The ULBs have been authorized to levy only those taxes approved by the Government and their ability to raise new sources in the form of cess and taxes have also been limited. While the total capital expenditure of all the ULBs including JNNURM participants was to the tune of Rs.180 billion in 2008, a mere 3% of it was funded through borrowings which was found to be consistent with the experiences in other emerging economies too when the ULBs had entered the debt/bond market without the support of the government. Although both ULB revenues and expenses have increased since 2002, own sources of revenues have increased by 150%, while revenues from Government transfers have increased by 300 per cent.

Figure 3
**Projected Municipal Own Revenue** (in percent)




| | 2011-12 | 2021-22 | 2031-32 |
|---|---|---|---|
| Non-tax Revenues | 0.18 | 0.23 | 0.28 |
| Revenue-shared taxes | 0 | 0.57 | 0.77 |
| Exlusive taxes | 0.32 | 0.37 | 0.42 |

Source: Report of HPEC 2011

This has increased the dependence of the ULBs on Government transfers and grants including those in the form of JNNURM grants for specific projects.

Despite the Plan estimates and action on infrastructure asset investment at 6% of GDP[4], the expenditure is far below the budgeted estimates. It compares inadequately with China's investment at 11% of its GDP. The Government in the XI Plan estimated the annual investment needs at 2% of GDP while the actual spending fell short and was pegged at ).5% of GDP[5]. In order to cover up this backlog and keep pace with the reforms in the XII Plan figures, India will have to ensure a minimum investment of 2% per annum to reach the Plan expenditure of USD 1.5 trillion. It will take India all the running it can do, to remain in the same place.

As the gap between the grants and own resources widens, the ULBs have little choice but to enter the bond market arena. Municipal issues are generally structured obligations in the nature of revenue bonds with a pre-determined interest rate with or without government guarantee for a period of 7-15 years.

Theories of capital structure state that the cost of capital of a firm in the long run remains the same irrespective of its capital structure. But there is an element of doubt about its applicability for an infrastructure investment, in which the cost of debt may be more attractive to the ULB than the cost of equity. There are reasons aplenty as to why any entity would prefer to raise funds from the debt market in preference over equity, why it would entertain a creditor over an owner of a stock one of them being that in a 'going concern', the owner stakeholder reigns supreme until the firm faces bankruptcy. The trend is seen in a corporate body as well as in a sovereign state.

Box 2

**Sovereign Debt**

The world economy to a great extent depends upon the flow of capital to sovereign debtors. Industrialized countries rely on it to finance their budget deficits while developing countries need it to develop. The primary reason why a country approaches a debt market is to derive the twin benefits allowing consumption to grow permanently at a different rate than the endowment in the long run and achieve consumption smoothing in the short run if the endowments fluctuate. Through short-term borrowing and lending, a country can avoid having to match the exact timing of import expenditures and export receipts. Having access to long-term loans allows a country to maintain consumption levels in the short-term while taking advantage of high-yielding domestic investment opportunities. Domestic investment opportunities can provide an additional reason to want to maintain access to credit markets. In the longer run, foreign debt can allow countries to undertake long-term investment projects without the sacrifice of current or future consumption that would otherwise be necessary. Moreover, models of endogenous growth show how access to international capital markets can lead to faster growth. The sovereign bonds provide benchmarks against which to value corporate bonds, and hence serve as catalysts for the development of the country's corporate bond market.

Box 3

**Linking Municipal Debt to Corporate and Sovereign Debt**

Bond financing has always been a savior be it in the largest of the nations or in the tiniest of the corporates. They have acted as a medium to bridge the gap between revenues and expenditures. At the international level, Sovereign debts have been major avenues for raising funds and enhancing growth. For a number of emerging economies, issuing sovereign debt has been the only way to raise funds. One of the significant benefits of sovereign debt has been consumption smoothing .Access to international capital markets has allowed nations to vary its investment levels in response to changes in domestic investment opportunities without completely offsetting its movements in consumption. Moreover, models of endogenous growth have depicted how access to international capital markets can lead to faster growth. Additionally, the sovereign bonds provide benchmarks to value corporate bonds, and hence serve as catalysts for the development of the country's corporate bond market. Similarly, corporate bonds have played a vital role in the growth of corporate firms. Debt financing decisions are of paramount importance both for the long-term growth and survival of the firms. Corporate bonds have persuaded the management to pre-commit to high quality information. Moreover, owing to the fear of bankruptcy, managers started to act in the interest of shareholders which in turn increased the market value. Hence, leverage increased the expected return to shareholders and has exhibited a 'positive influence' on earnings quality. The aforementioned features of bond issues have portrayed qualities which when applied to municipalities shall be beneficial as it not only enhances the financial condition of municipalities but also improves the transparency of their functioning. Bonds even act as liability for the elected officials to exhibit enhanced performance, similar to the corporate firms.

Two models of credit can be considered: (1) Commercial bank borrowings which were and are still a primary source of financing in Western Europe; and (2) bonds which were the foundation of infrastructure growth in North America. Though bank loans and bonds differ in their structure, the two instruments service the same purpose. There are however differentiators between the bank and bond market. Bond issues unlike bank loans are competitive and not focused on relationship building. The lenders and underwriters of the issue need not have a long-term relationship with the issuer and market competition would lower the cost of capital and produce savings. Bond issues would have much more public disclosures than banks with their proprietary information and methods of evaluation. The bond issuers would have the advantage of unbundling the services they would otherwise have received from the bank for the borrowings. Unbundling enables the ULBs to choose the most competent service provider which would again reduce their total costs. A third variant is also observed in Brazil. Brazil in 1980s instituted several Municipal Development Funds since municipal bonds were prohibited, which were an enormous success with a low non-performing municipal loans and successful completion of projects.

The Debt market in India, both corporate and others is still in its nascent stage and the local Government's access has been limited due to reasons more than one. At present there are 3,723 ULBs in India consisting of 109 Municipal Corporations, 1432 municipalities and 2182 Nagar Panchayats. The first ever municipal issue in India in 1997 by Bangalore Municipal Corporation raised an amount of Rs.1.25 billion with Government security and till 2012 the municipal bond market has witnessed 23 issues with a total of Rs.13billion raised. While only one bond issue was a public one, the rest were privately placed and secured. Five of the issues were escrowed with taxes and user charges while the remaining were general obligation bonds.

The increasing importance for ULB borrowings arises from three factors: Devolution of powers from the Central and State Governments to local bodies, an urgent need to build up infrastructure for development and the growing gap in infrastructure investments.

A municipal authority in India performs three functions viz. mandatory, discretionary and delegatory. An indicator of the state of development of a municipal body is the range of borrowing instruments available in the municipal credit market while another indicator is the level of the information flows and creditor rights as well as default procedures. It has been evident in India since 2005 that many sub-national bodies including municipalities have been in receipt of government grants without any improvement in their financial performance which acts as a disincentive to build borrowing capacity.

Four factors are generally found to affect the size and character of municipal borrowing[6]:

a. The intergovernmental fiscal framework

b. Municipal creditworthiness

c. The nature of domestic debt market in general and

d. The regulatory framework that relates specifically to municipal borrowing.

HPEC in its report has highlighted some of the reasons for the bleak state of municipal bond market. Currently, the ULBs can borrow from the market only within limits and with explicit approval of the state government while the precarious state of the municipal's own finances and poor governance has been a bottleneck in accessing external finance. Moreover, the complex institutional and fiscal framework at the ULB level with multiple authorities and overlapping jurisdictions has not helped in creating an enabling environment for accessing funds in the debt market. Most importantly, much of the regulatory responsibilities lies with the municipal borrowers (ULBs); the borrower-lender interface lies with states; but, most of the responsibility affecting lenders lies with the Government of India which has led to the problem of moral hazard in the municipal debt market.

Another significant road block for the pace of municipal debt market has been the lack of transparency in the system of accounting of municipal bodies. The first attempt at bringing in some semblance of reform in the accounting system was in 1981 but it picked up momentum only in 1990s after the economic and structural reforms. The municipalities have always been following the cash-based system of accounting. This included the single entry system of book-keeping which failed to distinguish accurately the different heads of revenue and expenditure. Incomplete records which only aggravated the problems of opaqueness and inordinate delays in finalizing the accounts leading to mistrust of the users of these financial statements.

The reforms in some of the ULBs at the behest of World Bank have taken form of either transforming into accrual-based system, revamping of the public expenditure system or computerization of accounts. The intent behind this makeover as brought in by the 74th Constitutional Amendment was to enable inter-corporation comparison, financial planning to name a few.

Box 4

**Municipal Accounting**

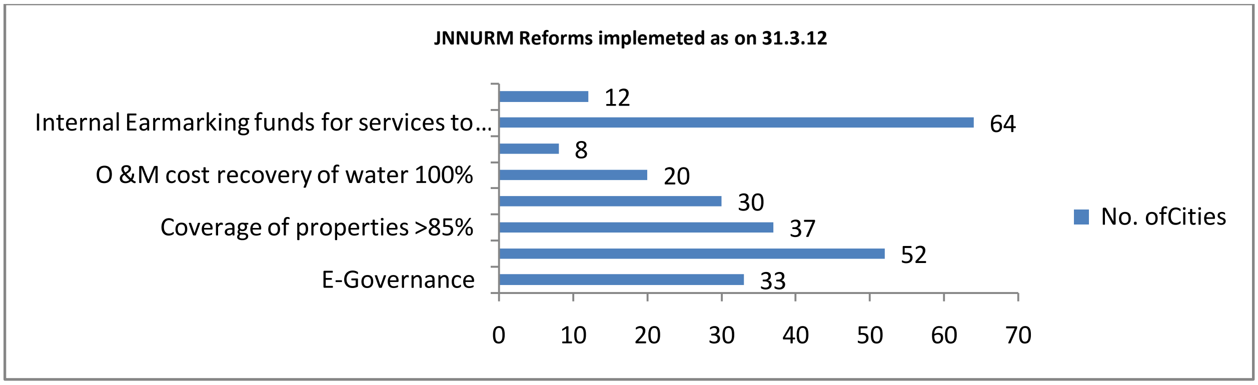
With the 74th Constitutional Amendment, the XI Finance Commission recommended a uniform system of reporting by ULBs.

A Task Force was constituted by the CAG and the following recommendations were made:

a. The ULBs should uniformly follow the suggested formats for presentation of annual financial statements.
b. Budget formats with codification needs to be adopted uniformly by all ULBs.
c. Suggested formats for determining the cost of important utilities and services like Water Supply, Primary schools and Hospitals etc.
d. Significant accounting principles to be followed by the ULBs shall be given as a separate schedule forming part of accounts.

The Ministry of Urban Development, Government of India with a desire to promote good urban governance, published a National Municipal Accounting Manual 2004 (Manual). It is to be adopted by various State Governments while drafting their State specific municipal accounts manual. The Manual gives comprehensive details of the accounting policies, procedures, guidelines to ensure transparency in reporting information. It contains not only the formats of the financial statements including the subsidiary books and budgets but also the guidelines for the preparation of the Balance Sheet. It requires the ULBs as per Table 31.8 of the Manual to calculate various ratios like Income ratios, expense ratios, Efficiency ratios, Leverage, Liquidity and Performance ratios to evaluate and monitor their performance. On closer inspection, the accounts of Ahmedabad, Bengaluru, Chennai, Mumbai and Visakhapatnam only have complied with the format mentioned in the Manual. The budgets as seen from individual municipal websites for the year 2012-13 are available for 20 cities only and the accounts for the financial year 2011-12 have been reported by 6 cities only. While only one ULB of Faridabad has reported the City Development plan which is mandatory as per JNNURM for the year 2011-12, only three cities of Visakhapatnam, Surat and Pune have completed all the reforms recommended by JNNURM as seen in Fig. 4

Fig 4




Source: JNNRUM website

Other reasons for the issues and constraints in municipal bond market may be the growth of technology, consumer needs and demand has taken place at a pace faster than the changes brought in the regulations which still retain a strong British flavor. This fissure has been enlarged due to the increasing population in the age group of less than thirty years which changes the dynamics of demand and supply of infrastructure services. Secondly, the dominance of public sector banks and other financial institutions in the municipal debt market affect the development of a diversified and efficient market in the matter of savings and investments. Though the ULBs are directly governed by the Constitution of India and Local Authorities Loans Act 1914, some subordinate legislation directly or indirectly have an impact on the municipal borrowing activity like the RBI and SEBI. Some of the issues for a near non-existent municipal bond market may be as under:

**Challenges in raising funds through municipal bonds in India:**

1. Several capital expenditure projects do not have an equitable matching source of revenue to ensure timely repayment of the debt. For instance, Ahmedabad Municipal Corporation issued bonds for Rs.1billion to invest in a water supply and sanitation project but the source of repayment was escrowed from Octroi and Madurai issued bonds to the tune of Rs. 825 million for investing in a water supply and sanitation project in 14 ULBs but the amount escrowed was from non-property tax, profession tax and advertisement tax.[5]The maturity of the debt does not match the economic life of the assets nor does the amortization of the liabilities match the depreciation of financed assets. The bank borrowings vary for a period of 3-7 years which may

not be suitable for projects with long gestation periods. The benefits of infrastructure investments are received by the future generations too. It is deemed fair that an equitable cost of financing is also to be borne by them. The reluctance of the lender may be due to the high level of financing cost to be borne at present.

2. The securitization of land and other fixed assets is a one-time activity and does not assure a self-sustainable solution. The problem becomes acute when for instance the revenue from leasing of land and other non-current assets does not match to repay the short term commercial loans more so when the long-term project like solid waste management does not directly add to the land value.
3. Absence of independent audit of public financial statements.
4. SARFAESI Act 2002 does not apply to municipal bodies or their borrowings.
5. Funding of ULBs by the JNNURM project has decreased the incentive to approach the debt market.
6. The ULBs do not have a mechanism to report the strategy/ business plan of their specific projects to the stakeholders.
7. The evaluation of a project/activity does not consider the benefits accruing to the stakeholders but is made on the parameters of revenues earned and expenses incurred.
8. Special Purpose Vehicles will increase the scope for off-Balance Sheet financing which may result in a high degree of contingent liabilities and window dressing of financial statements.
9. There exists no bankruptcy law/regulation for ULBs in India.
10. As many of the infrastructure development projects are developed by statutory bodies like HUDCO, the responsibility of the ULBs in capital expenditure is reduced to that extent and so is their investment needs.
11. Though the Government has prescribed an accounting manual for ULBs, there is no uniformity in reporting and disclosure of financial information by the ULBs.
12. Though a causal relationship between JNNURM grants and diminishing municipal borrowings activity cannot be proved, the coincidence is visible in JNNURM cities which happen to be the biggest borrowers.
13. The RBI does not consider the ULBs to be their priority, hence are not separately categorized for monitoring and evaluation.

14. Though State Finance Corporations (SFC) has been set up by most State Governments and recommendations have been made, all the States have not accepted the recommendations for devolution of funds. Therefore, the essence of SFCs is lost on ULB financing. This is in contrast to Brazil and South Africa as they are legally guaranteed which has helped in attracting external debt.
15. The usual limit of a municipality while borrowing is restricted by the value of land and buildings within the municipal limits. But as the property tax collection method is not satisfactory and does not generate revenue pre-determined by the records, it ceases to be a driver for determining the limits. Moreover, the ratio of each of the sources of revenue has been foreseen to change in the coming years which makes the borrowing and the repayment sources lop-sided as seen in figure below.
16. Indian ULBs borrow heavily to finance operating budget deficits which increase its costs of financing.
17. Heavy borrowings from banks (ex. Maharashtra Muni) having weak incentives to price-returns and risk may lead to suboptimal investment and financing decisions.
18. The rolling over of bank debt results in a higher cost of borrowing.
19. The regulatory cap on tax-free yields has reduced the incentive to invest in municipal bonds.
20. Municipal bond issues are more administratively complex than bank loans and any savings in interest cost would counter against the increased administrative cost.

The following constraints are considered to be the reason for the partial failure of Municipal Bonds:[2]

The supply-side constraints include:

- There is a fixed cap of 8% annual interest on tax-free interest from municipal bonds and it does not respond to market conditions. Municipal bonds become unattractive when market rates exceed the cap.
- Institutional investors such as the insurance companies are constrained because of restrictions imposed by the investment guidelines of the Insurance Regulatory Development Authority (IRDA).

- Since there is lack of credit enhancement, hedging tools for investors to mitigate credit risk, and limited reliability of credit information, investors perceive municipal bonds to be risky.
- Given the poorly developed government securities market, municipal bonds are relatively illiquid investments for lack of exit opportunities for institutional investors.

The demand side constraints include:

- Too few creditworthy issuers seeking bond financing.
- Too few financially viable projects seeking bond financing.
- A lack of intermediation support to help issuers achieve bond structures that respond to investor needs while providing the issuer with the longest possible tenor, lowest possible interest rate, and lowest possible cost of issuance.
- Presently, there is divergence of opinion on the optimal debt equity ratio for ULBs. Therefore, the rating agencies must communicate the optimal debt equity ratio for projects by ULBs.

A Municipal body could reap the under mentioned potential benefits through issuing bonds:[9]

a. Leverage internal resources in the form of fixed assets as land for infrastructure development.

b. Ensure a balance between the ability to incur capital expenditure with the ability to raise revenue for repayment.

c. Increase financial transparency and discipline.

d. Help in accessing funds through FI at a lesser cost.

**What needs to be done?**

1. If Indian ULBs need to develop a healthy credit culture, it is imperative that all stakeholders understand and accept that a sub-national government debt is a debt of the legal entity alone that issues debt and of no other. This may make the ULBs less reliant on government bailouts and improve their operational efficiency.

2. The Government can mandate that sub-national governments disclose their fiscal accounts, which could be audited by independent organizations. The disclosure should not be limited to direct government budgetary accounts but to all special-purpose vehicles created by sub-national governments should disclose their financial accounts. A comprehensive list of fiscal indicators evaluated by international rating agencies can serve as a reference on types of fiscal information to be disclosed.
3. Listing of issues to be made mandatory and SEBI norms to apply as it does to any other not-for-profit organizations.
4. Need for independently audited public financial accounts.
5. Mandatory credit rating which would be by the same credit rating agency for succeeding years to avoid the different levels of ratings by different rating agencies.
6. For the receipt of funds/grants from the Government, it should show a balanced budget; no deficit for at least three preceding previous years.
7. The Accounting Manual should have a provision to exhibit the net surplus or deficit of the ULB.
8. To achieve the desired transparency, the budgets of ULBs have to contain separate operating and capital accounts. The capital investments need to exhibit the investment over the next consecutive years. This would enable the potential lender to understand its current and the future liabilities.
9. A facility provided to the investors to intercept funds due to a municipal entity from another level of Government will add to the security of the bond.
10. The provision included in the issue to trigger the imposition of an additional tax or fee within the defaulting municipality.
11. Uniform property valuation method throughout the country to help in collecting an equitable amount of property tax.
12. Loans and grants to be disbursed by the Government only on the fulfillment of the pre-determined targets of the services to be provided.
13. A separate corporate entity may be established under the ownership of an ULB. The corporate entity would focus on the service delivery and all equity concerns to be managed by the ULB. The citizens may be entitled to hold stake in the corporate entity which would

ensure that they would be owners as well as consumers to enhance the accountability and responsibility.

14. Indian ULBs instead of choosing between bank borrowings and bond issues can design a model with select characteristics of both systems.

**Possible impact of these solutions:**

Impact 1: It would expose the ULBs to market discipline, strengthen fiscal transparency and ensure good governance.

Impact 2: It would ensure financial market deepening. It would not only be a viable alternative to bank borrowing but also leverage it to borrow from banks easily.

Impact 3: It would help ULBs to capture the benefits of long-term capital investments immediately instead of waiting for accumulated savings.

Impact 4: Potential Solution 14 above would encourage both banks and bonds to operate on a level playing field.

An estimate at the mid-point of the twenty year period ending 2031-32 shows the total revenue of municipal entities to be 1.7% of the GDP in which own resources would add up to 68% of total revenue but a sharp incline in the total expenditure to the tune of 2.1% of the GDP would result in a greater deficit of 39% of GDP. For the period 2023-32, the revenue is expected to climb up to 2.1% of the GDP with 73% of it being generated by own resources and a reduced deficit of 0.15% of the GDP[5].

Looking at the degree of compliance of the HPEC recommendations, it is obvious that most of the ULBs have shown only a token fulfillment of them. While 64 cities have earmarked funds for urban poor, only 12 claim to have utilized it to provide amenities to them. Figure 6 shows the extent of investment but disconnect between investment and fulfillment of various responsibilities is seen Figure 5. Despite the current investment and projected growth rate, the big question that looms ahead of us and whether we are doing enough to place India and its efforts at urbanization at par with other emerging economies of the world?

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