

FOREWORD

The term 'general government' refers to all its tiers, *i.e.*, union, state and local governments. The Reserve Bank of India (RBI) has been publishing general government statistics for India since 1980-81, but they cover the combined fiscal positions of the union and state governments only, due to the absence of consolidated data on local governments comprising municipal corporations (MCs), municipal councils, municipalities/nagar panchayats and panchayati raj institutions. In order to fill this gap, this maiden report on Municipal Finances is being published this year, with the objective of making it a regular annual publication. The availability of local government statistics will also help improve the coverage and sectoral classifications of India's Flow of Funds (FoF) accounts. Hereafter, general government statistics published by the RBI will include municipal finances, incorporating MCs that account for around 70 per cent of the finances of urban local bodies in India, and all efforts will be made to expand this coverage on an ongoing basis. With this initiative, India will progressively align with the G20 Data Gaps Initiative, commencing from the year of its G20 Presidency.

The key highlights of this report are:

- The rapid growth of urbanisation in India has not been accompanied by a corresponding increase in urban infrastructure, which is reflected in the performance of the urban local bodies, especially MCs.
 - While the size of the municipal budgets in India are much smaller than peers in other countries, revenues are dominated by property tax collections and devolution of taxes and grants from upper tiers of government, resulting in lack of financial autonomy.
 - MCs' committed expenditure in the form of establishment expenses, administrative costs and interest and finance charges is rising, but capital expenditure is minimal.
 - MCs mostly rely on borrowings from banks and financial institutions and loans from centre/state governments to finance their resource gaps in the absence of a well-developed market for municipal bonds.
- MCs need to adopt sound and transparent accounting practices with proper monitoring and documentation of various receipt and expenditure items, and explore different innovative bond and land based financing mechanisms to augment their resources.

This report has been prepared in the Division of State Finances (DSF) of the Department of Economic and Policy Research (DEPR) under the overall supervision of Dr. Deba Prasad Rath, Principal Adviser. The DSF team led by Dr. Atri Mukherjee, Director, has drafted the report. The team includes Dr. Somnath Sharma and Shri Bichitrananda Seth, Assistant Advisers, and Shri Rachit Solanki and Shri Nirmal Kumar, Managers. Dr. Samir Ranjan Behera, Director, Division of Central Finances (DCF) made valuable contributions to the report. Appreciation for the entire team for this innovative effort is placed on record.

We are thankful to Dr. Prasanna Kumar Mohanty (former Director, Reserve Bank of India Central Board) for his overall guidance and kind suggestions at different stages of drafting of the report. Valuable comments and suggestions by Dr. Mridul Kumar Saggar, former Executive Director and Dr. Sitikantha Pattanaik, Executive Director are gratefully acknowledged.

The study would not have been possible without the budgetary data and granular information provided by MCs across all the states. The team benefited from several rounds of discussions with the finance and urban development departments of state governments and union territories which is gratefully acknowledged.

The input and support received from Smt. Deepa S. Raj, Dr. Sangita Misra, Dr. Raj Rajesh, Dr. Seenuvasan M, Shri B.S. Choudhary, Ms. Sukshima Naik, Shri T. P. Meitei, Dr. Alice Sebastian, Smt. Upasana Sharma, Shri Kapil Dev Manhas, Shri Kunal Rahar, Ms. Pallavi Bhankhor, Shri Rashmi Ranjan Behera, Ms. Anchal Agarwal Jain, Shri Neeraj Kumar, Shri Prabal Bilantu, Dr. Kirti Gupta, Ms. Sarita Sharma, Ms. Madhuchhanda Sahoo and DEPR units of the Regional Offices of the Reserve Bank is praiseworthy.

Michael Debabrata Patra
Deputy Governor
November 10, 2022