

## AN EMPIRICAL STUDY ON FINANCING OF URBAN LOCAL BODIES

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### ABSTRACT

*Local bodies play a prominent role in the development of urban areas. This paper focuses on Municipal Corporation's financing and its uses in the development of urban areas. Municipal Corporation is a local government body that administers the city. In this paper examines how effectively the municipal corporation welfare the people and how to uses the finance for the welfare and infrastructures. Development of the cities and towns is one of the most important determinants of national economic growth, job creation, and social development so this is the overall development of our country.*

**KEYWORDS:** *Local Bodies, Municipal Corporations, Local Government, Financing, Municipal Grants.*

### Introduction

Municipal governance in India has introduced in the year 1688, with the formation of Madras Municipal Corporation. Firstly the government act was introduced in India in the year 1919 because the requirement of democratically elected government system. Another act also introduced in 1935 to brought local government under the purview of the state or provincial government and specific powers were given. As per the constitution of India, 74th Amendment Act of 1992, there are two types of towns are introduced as municipalities and nagar panchayats with elected bodies. Until the amendments in state municipal legislations, which were mostly made in 1994, municipal authorities were organised on an ultra vires (beyond the authority) basis and the state governments were free to extend or control the functional sphere through executive decisions without an amendment to the legislative provisions. After the introduction of 74th Amendment there are only three types of urban local bodies:

- Municipal corporation (nagar nigam)
- Municipalities (nagar parishad)
- Municipal council (nagar palika)

This paper clear that there are nagar panchayat for rural areas, municipality for those urban areas where the population more than 3lakh upto 10 lakh and the municipal corporation are available for those areas where the population more than 10 lakh. The 74th Amendment Act was introduced in 1992, focus on these issues after existence of local government –transfer of administrative and financial power to local bodies then the efficiency and effectiveness of local governments functioning also increased. After these amendments we can say that local government would bridge the gap between citizens and the higher tiers of government, by taking into account immediate as well as long term needs of their respective jurisdiction. In 12<sup>th</sup> schedule the responsibilities and goals of municipalities are introduced such as urban development, sanitation of cities, public facilities and slum improvement. Municipal Corporation is divided into zones. Each zone has its Municipal Commissioner (Chief Executive Officer and head of the executive arm of the Municipal Corporation), followed by the Municipal Corporation Inspectors.

### Review of Literature

**Charan Singh RBI Chair Professor Economics & Social Science Indian Institute of Management Bangalore and Chiranjiv Singh, IAS (Retired) Former Development Commissioner, Karnataka (2015):** "Financing Of Urban Local Bodies In India" this paper main focus on financing of

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Municipal or Urban Local Bodies (ULBs) and the Panchayati Raj Institutions (PRI). Local bodies are welfare organization for public and The local bodies directly deal with the local population, and accordingly are best informed about the ground reality. Accordingly, their inputs and suggestions deserve due consideration in planning and implementation processes and their concerns require suitable attention by the state governments. The main focus on improvement in financial position and strengthen the local bodies. In local bodies there are need to improve their infrastructure according to technology up gradation of services and facilities provided by local bodies to people:

- **Sujata Srinivasan (2009):** "Financial Disclosure in Local Government" the main focus of this paper on This paper attempts to focus on the financial reporting and disclosure practices in the public sector across the world. The paper also examines the accounting and financial reporting reforms that have are taken place in the public sector of certain European and Asian countries. This paper also examines in comparative context the reforms being introduced in the public accounting system in India the finding from these comparative study shows that the countries such as united states, united kingdom, Canada, Australia and new Zealand have comparatively better and more transparent disclosure practices and India are fast catching up in introducing reforms that will revamp their public sector reporting and disclosure.
- **Grates Recommended For Local Bodies:** The grates has recommended assured transfers to the local bodies for planning and delivering of basic services smoothly and effectively within the function assigned to them. The primary function to deliver basic services as improvement in the quality of basic services.
- **Grates Components:** The 14<sup>th</sup> financial commission has recommended grant in aid to duly constituted panchayats (rural local bodies) and municipalities( urban local bodies) in two parts namely-1.A basic grant and 2.A performance grant in case of urban local bodies the ratio between basic and performance grant 80:20 basis the division between them are given below in the tables.
- **Basic Grant:** The grants provided are intended to be used to support and strengthen the delivery of basic civic services including water supply, sanitation including septic management, sewage and solid waste management, storm water drainage, maintenance of roads, footpaths, street- lighting and any other basic services.
- **Performance Grants:** The performance grants are to address the following issues 1. In audited accounts of local bodies mention the receipt and expenditure and 2. Improvement in own revenues in addition, the urban local bodies will have to measure and publish service level benchmarks for basic services.

**Grants to Local Bodies**  
**State Wise Share Basic Grants (In Crores )**

S. No.	State	2015-16	2016-17	2017-18	2018-19	2019-20	2016-20
1	RAJASTHAN	483.12	599.73	692.93	801.60	1083.13	3610.50
2	GUJRAT	614.91	851.45	983.77	1138.05	1537.74	5125.91
3	UTTRA PRADESH	983.60	1361.97	1573.63	1820.41	2459.76	8199.37
4	MADHYA PRADESH	496.79	687.89	794.80	919.44	1242.36	4141.27
5	PUNJAB	235.41	325.96	376.62	435.68	588.69	1962.35

Sources: 14<sup>th</sup> finance commission report ,govt. of India

**Grants to Local Bodies**  
**State Wise Share Performance Grants (In Crores)**

S. No.	State	2016-17	2017-18	2018-19	2019-20	2016-20
1	RAJASTHAN	177.00	200.30	227.47	297.85	902.62
2	GUJRAT	251.29	284.37	322.94	422.87	1281.48
3	UTTRA PRADESH	401.97	454.88	516.58	676.42	2049.84
4	MADHYA PRADESH	203.02	229.75	260.91	341.64	1035.32
5	PUNJAB	96.20	108.87	123.63	161.89	490.59

Sources: 14<sup>th</sup> finance commission report, govt. of India

**Conclusion**

- Monitor the progress of expenditure of the grants by the local bodies and suggest remedial measures, if needed.
- Steps to empower local bodies to impose levy of betterment tax and advertisement tax to improve own revenues from these sources.
- With the support of government issue the municipal bond as a source of finance for local bodies. The larger municipal corporation can do direct contact to market and medium and small can take the help of mediator for issuance of municipal bond.

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