# 1. 16th Finance Commission- Economy

As more Indians move to cities, 16th Finance Commission gives a boost to urban governance. The 16th Finance Commission has recognized that the "Future of India is Urban." By increasing ULB grants to 45% (₹3.56 lakh crore), it has addressed the 78% urbanization potential flagged by global bodies. However, for this "fiscal booster" to work, states must fully devolve the 18 functions under the Twelfth Schedule and empower ULBs to become financially self-reliant entities.

## 1. 16th Finance Commission- Breaking Records for Urban India

The 16th FC has signalled a structural shift in fiscal federalism by prioritizing the "Third Tier" of governance.

**Significant Percentage Increase-** The share of grants to ULBs has been raised to 45% of the total local body grant pool.

**Absolute Fiscal Support-** The recommended allocation stands at ₹3.56 lakh crore, which is more than double the 15th FC's allocation (₹1.55 lakh crore) and nearly 15 times that of the 13th FC.

**Largest Ever Support-** This represents the highest fiscal transfer to urban governance in independent India's history.

## 2. Rationale- Why Focus on Cities Now?

The Commission's decision is based on the reality of India's rapid, though often "hidden," urbanization.

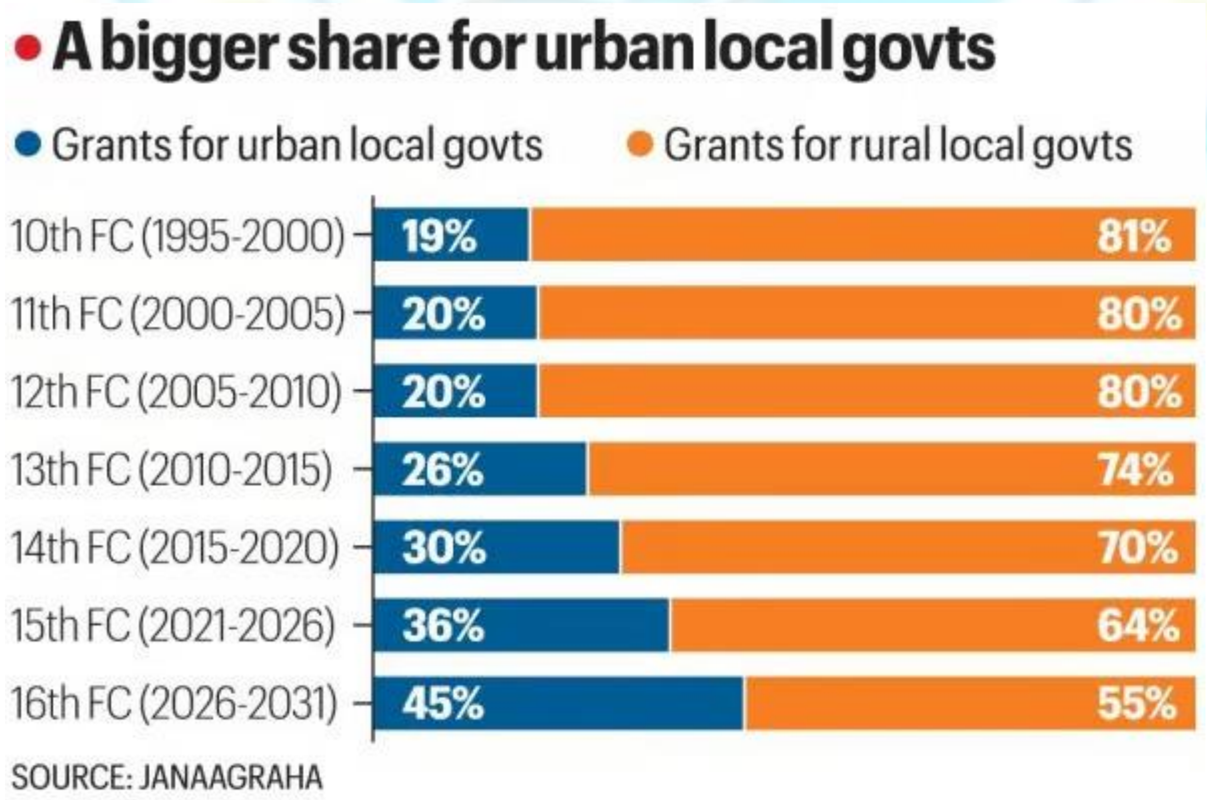
**GDP Contribution-** Cities contribute nearly two-thirds of India's GDP, acting as the engines of national economic growth.

**The Urbanization Surge-** * Census 2011- 31% urban population.

1. Projected 2031- 41% urban.
2. Global Context- India still lags behind Brazil (87%) and Indonesia (54%), necessitating "pre-emptive" fiscal planning.

**Addressing Data Gaps-** A 2015 World Bank report suggested that up to 78% of Indians live in "urban clusters." The 16th FC's enhanced funding prepares ULBs for the 2027 Census results, which are expected to show much higher urbanization levels (potentially 48%).

## 3. Comparative Evolution of ULB Grants



| Finance Commission | Share of Local Body Grants to ULBs | Absolute Allocation (Approx) |
|---|---|---|
| 13th FC | 26% | ₹24,000 Crore |
| 15th FC | 36% | ₹1.55 Lakh Crore |
| 16th FC | 45% | ₹3.56 Lakh Crore |

## 4. Major Challenges Facing Urban Governance

Despite the funding, Indian cities face deep-rooted structural and functional deficits-

**Uneven Inter-State Distribution-** Grants follow a population-based formula, leading to "Winners" and "Losers."

1. Gainers- Kerala (>400% increase), Maharashtra (>300%).
2. Reductions- Bihar (8% decrease).

**Infrastructure Gaps-** High Non-Revenue Water (NRW) losses, intermittent supply, and a massive sewage treatment deficit.

**Housing & Slums-** Approximately 65 million people live in informal settlements with inadequate access to affordable housing.

**Financial Fragility-** ULBs suffer from poor property tax coverage, weak municipal bond markets, and over-dependence on state transfers.

**Administrative Issues-** Weak implementation of the 74th Amendment; state governments still control urban planning through parastatal bodies (Development Authorities) rather than elected ULBs.

## 5. Implications and the "New Urban" Vision

**Fiscal Autonomy-** Direct and enhanced grants improve the ability of ULBs to provide essential services (waste management, mobility) without waiting for state-level clearances.

**Climate Resilience-** Funding allows cities to invest in flood-mitigation (crucial for Chennai/Bengaluru) and "Heat Action Plans."

**Alignment with National Missions-**

1. Smart Cities Mission- Focus on ICT-enabled governance.
2. AMRUT- Universal coverage of water supply and sewerage.
3. Swachh Bharat (Urban)- Achieving ODF+ status and 100% waste processing.
4. PM SVANidhi-Integrating Street vendors into the formal urban credit system.

## 6. Way Forward- Digital and Participatory Governance

**GIS-based Property Tax-** Moving to satellite-mapped systems to increase own-source revenue.

**Participatory Budgeting-** Adopting the "Pune Model" where citizens decide on a portion of the municipal budget.

**Capacity Building-** Investing in trained urban planners and digital dashboards to move from "reactive" to "proactive" city management.

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