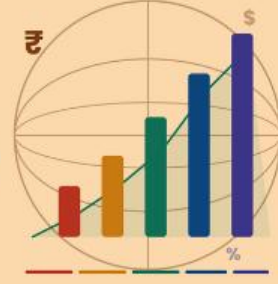




# SYMBIOSIS SCHOOL OF ECONOMICS

...creating equilibrium

## The SSE Economic Tracker



May 2026

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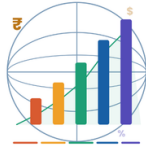
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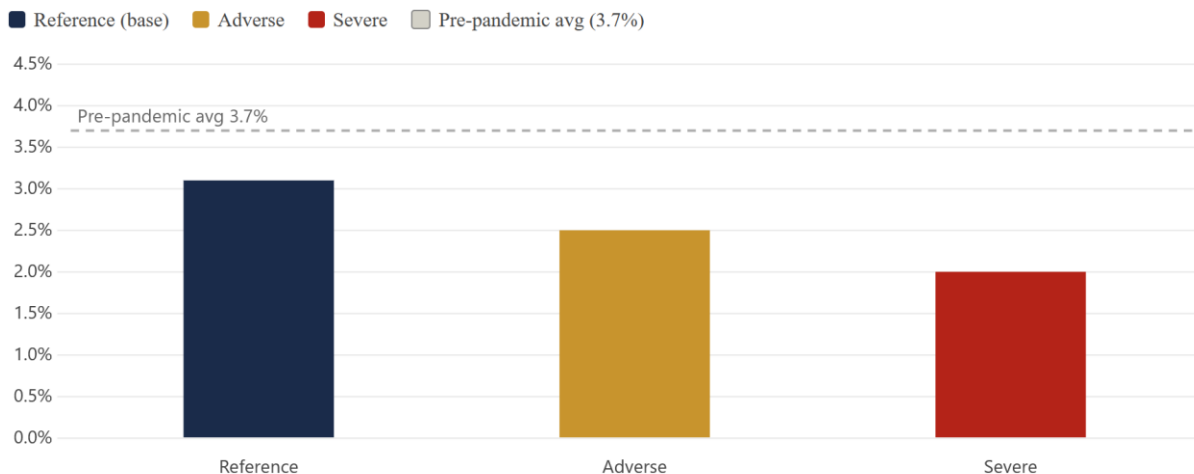
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## Global Economy

- The International Monetary Fund's (IMF) World Economic Outlook, titled "Global Economy in the Shadow of War," reported that global projected growth stands at 3.1% in 2026, down from 3.4% in 2024-2025 and well below the pre-pandemic 2000-2019 historical average of 3.7%.
- The growth rates of emerging markets were downgraded to 3.9% from 4.2% in January. Commodity-importing emerging markets have been identified as the most exposed. Much of the risk stems from the U.S.-Iran conflict and broader geopolitical fragmentation. Additionally, a re-evaluation of profit expectations from AI productivity has lowered expectations, which can reduce investment in the short term.
- The IMF has also found that conflicts generate persistent output losses that are larger than those from financial crises.

### IMF growth scenarios 2026–27



- According to the IEA Oil Market Report, physical crude oil prices reached record levels close to \$150/bbl during the peak supply disruption, far above futures markets. Global crude oil runs are expected to decline by 1 million barrels per day, while global oil demand is projected to contract by 80,000 barrels per day in 2026, compared with growth of 730,000 barrels per day projected just a month earlier.

## Brent Crude Oil Daily Prices from January to May 2026



- Global oil inventories decreased by 85 million barrels in March, while inventories outside the Gulf region decreased by 205 million barrels, a staggering decline of 6.6 million barrels per day, as the war intensified and the Strait of Hormuz was completely blocked.

## West Asia Crisis & Its Contagion Effects on India

### Growth Impact

- The crisis is expected to dampen India's economic growth through multiple transmission channels: higher inflation, weaker consumption, increased production costs, and reduced external demand.
- Estimates suggest a potential reduction of 50-80 basis points in GDP growth for FY2026-27, bringing growth down to around 6.0-6.5%. The RBI has acknowledged downside risks, with projections indicating growth of around 6.9% under baseline assumptions.
- The World Bank's India Development Update projects FY27 growth at 6.6%, down from 7.6% in FY26 and 7.1% in FY25. A prolonged conflict could further worsen these projections.

## **Trade Implications**

- West Asia is a crucial trade partner, with total merchandise trade estimated at around \$180 billion (exports: \$60-65 billion; imports: \$120–125 billion; trade deficit: approximately \$65 billion), accounting for more than one-sixth of India's total trade. Rising energy prices increase input costs, reducing the competitiveness of Indian exports such as engineering goods, textiles, and chemicals.
- Higher shipping insurance premiums, freight rerouting, and delays in maritime transport are increasing transaction costs. Sectors dependent on imported intermediates, including chemicals, electronics, pharmaceuticals, fertilisers, gems and jewellery, and engineering goods, face rising cost pressures.

## **Fiscal Impact**

- Higher energy prices can strain public finances through an increased subsidy burden (fertilisers, LPG), reduced tax revenues due to slower growth, and lower dividend receipts from public sector enterprises. As a result, the fiscal deficit may exceed the targeted 4.3% and could approach 5% if elevated oil prices persist, limiting the government's fiscal space for growth-supportive spending.

## **FDI and Remittances**

- West Asia contributes around 5% of India's total FDI inflows, with the UAE, Saudi Arabia, and Qatar emerging as important long-term investors. Economic stress in these countries could affect investment flows. However, remittances, accounting for nearly 40% of India's total inflows, are expected to remain relatively stable due to their countercyclical nature, as Indian workers in the region tend to maintain flows even during economic downturns.

## **Tourism Impact**

- Geopolitical tensions are likely to reduce inbound tourism from West Asia by an estimated 15-20%, potentially leading to revenue losses of around \$2 billion, with impact felt across airlines (higher costs due to rerouting), the hospitality sector (lower occupancy rates), and tourism-linked MSMEs.

## **Energy Security**

- West Asia remains central to India's energy needs, accounting for over 50% of its crude oil imports and around 65% of its LNG imports. Major suppliers include Saudi Arabia, the UAE, Qatar, and Iraq.
- In 2025, India's energy imports from the region were valued at approximately \$100 billion. Any disruption, whether through supply shocks, higher insurance costs, or shipping route instability, can sharply raise import bills and create supply vulnerabilities.

## **Indian Economy: Agriculture & Rural Economy**

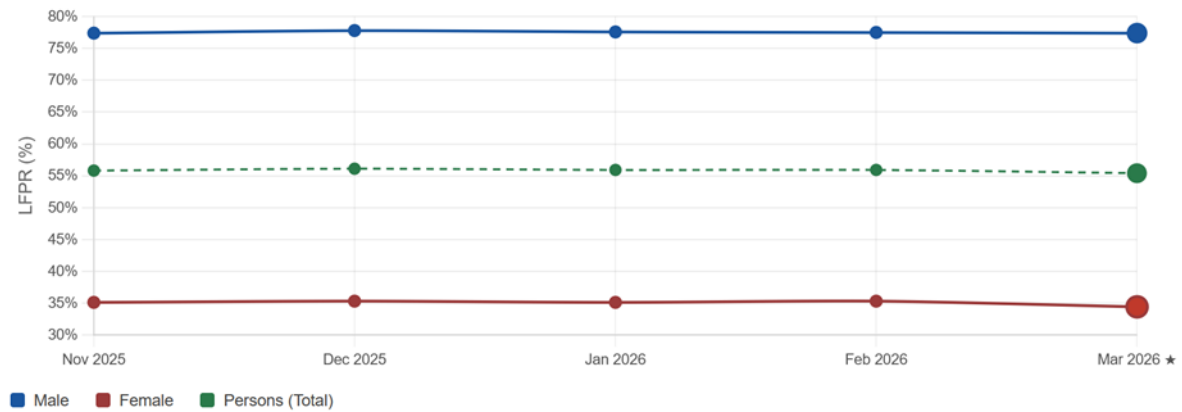
- The IMD projected 2026 Southwest Monsoon rainfall at 92% of the Long Period Average (LPA), the weakest initial forecast in at least 25 years, sharply reversing the above-normal rainfall of 2024 and 2025. Close to 60% of farmers are completely dependent on the monsoon for Kharif crops; rice, maize, and pulses are at risk, potentially pushing food inflation higher through a higher import bill.
- Geopolitical tensions in West Asia are further moderating agricultural growth by increasing input costs and disrupting export trade. India's fertiliser import dependence has contributed to a 30-40% increase in urea prices, alongside rising fuel and shipping costs. Nearly \$11.8 billion worth of agricultural exports, rice, spices, fruits, and other commodities destined for West Asian markets face risks from shipping disruptions near the Strait of Hormuz.

## **Indian Economy: Labour Market**

- The labour force participation rate (LFPR) has remained almost unchanged in the last five months (Current Weekly Status-CWS). There is a marginal decline that can be noticed in the case of female LFPR (in March 2026). However, the key concern is that the female unemployment rate (UR) remains near 5%. The issue of female UR intensifies in the urban areas, where it stands at 9%. The female UR peaked in the month of Jan, 2026, where it was almost 10%.

### PLFS LABOUR FORCE PARTICIPATION RATE (LFPR)

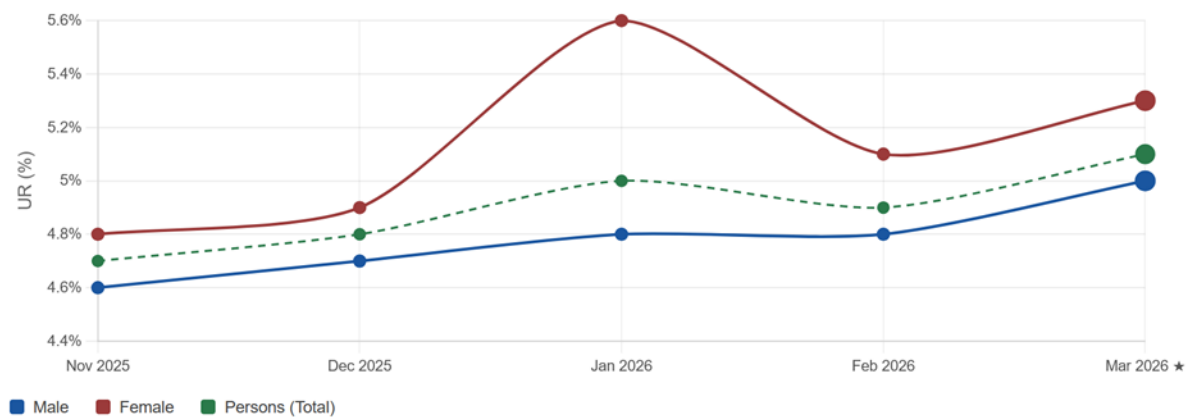
LFPR (%) by gender & persons total | ★ Mar 2026 = latest



- The situation mentioned above is not a normal condition. We realise the actual intensity of unemployment when we discuss it in terms of absolute numbers. As per the United Nation’s World Population Projection, there are 539.3 million females in India in the age group 15 and above. The female unemployment rate has been around 5% on CWS over the last five months, according to PLFS data. It means around 26.9 million women are actively seeking work. Since the urban female UR is higher, this suggests that unemployment among the female workforce is more severe in urban areas.

### PLFS UNEMPLOYMENT RATE (UR)

Unemployment Rate (%) by gender & persons total | ★ Mar 2026 = latest



Source: PLFS Monthly Bulletin, MoSPI.

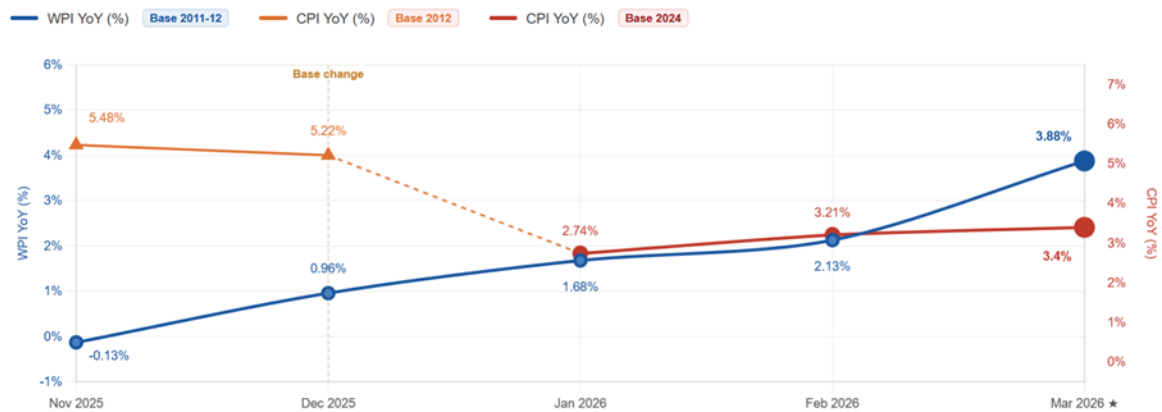
- Female LFPR is falling sharply from 35.3% in February. Prior to March, female participation had been remarkably stable at 35.1–35.3% across four consecutive months, making the March drop to 34.4% a significant single-month deterioration that stands out as the most alarming movement in the data. What's notable is that the male trend is worsening monotonically; every single month is worse than or equal to the last, with no recovery dip, suggesting steady erosion rather than volatility.

## Indian Economy: Inflation (WPI & CPI)

- Since January, the gap between the WPI and CPI has started narrowing.
- It is not so often that WPI exceeds CPI. The government's official press release suggests that the growth in WPI is due to a rise in the prices of crude petroleum & natural gas, other manufacturing, non-food articles, the manufacture of basic metals, and food articles, etc.
- Exceeding WPI then CPI shows that the sellers have absorbed the increased cost.
- In this situation, we can expect a higher CPI in April 2026. Such possibilities have already been expressed by the Reuters poll of economists.
- Another interesting part of the March 2026 CPI release is that rural inflation is higher compared to urban inflation (3.63% vs 3.11%). This trend of rural CPI exceeding urban CPI began in Feb 2026 (base 2024).
- Not for a single month, Rural CPI exceeded Urban CPI in the year 2025 (base 2012).
- The gap between Rural CPI (General) and Urban CPI (General) is higher compared to Rural CPI (food) and Urban CPI (food). It means the non-food components are responsible for the higher CPI in rural areas.

**WPI & CPI — YEAR-ON-YEAR INFLATION (%)**

Nov 2025 – Mar 2026 | Dual-axis | ★ Mar 2026 = latest



▲ **Series discontinuity:** CPI Nov–Dec 2025 uses the 2012 base series; Jan–Mar 2026 uses the 2024 base series. The two segments are not directly comparable — the apparent drop from -5.2% to 2.74% reflects a base change, not a true disinflation. A dashed connector marks this break. WPI uses a consistent 2011-12 base throughout.

Sources: MoSPI WPI & CPI Monthly Releases, April 2026.

## Indian Economy: Industry & IIP

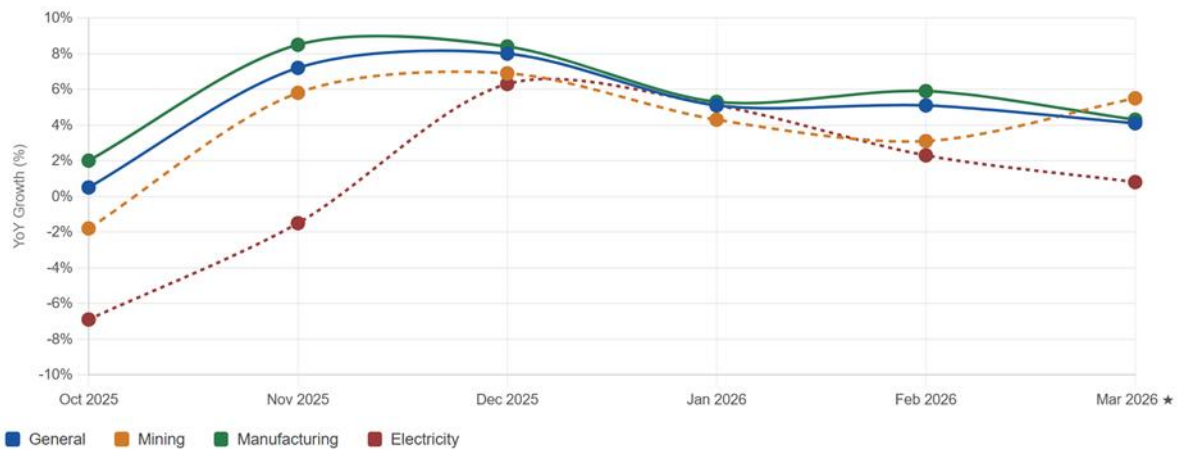
India's industrial sector maintained steady momentum during the first quarter of 2026, supported by strong domestic demand, ongoing infrastructure expansion, and improving capacity utilisation.

### IIP: Sectoral Growth

- Headline IIP growth moderated to 4.1% in March, but the trend remains healthy.
- The March IIP YoY growth is lower compared to Jan and Feb, 2026.
- The decline in IIP YoY growth began in August 2024. After that, IIP continues to struggle to touch 6% growth.
- The months of November 2025 and Dec 2025 have shown some hope, with YoY growth of 7.2% and 8.0%, respectively.

#### SECTORAL IIP GROWTH RATE (%)

Year-on-year growth — Oct 2025 to Mar 2026 | Base Year: 2011-12=100



Source: MoSPI IIP Monthly Release, April 2026. \* Mar 2026 = latest.

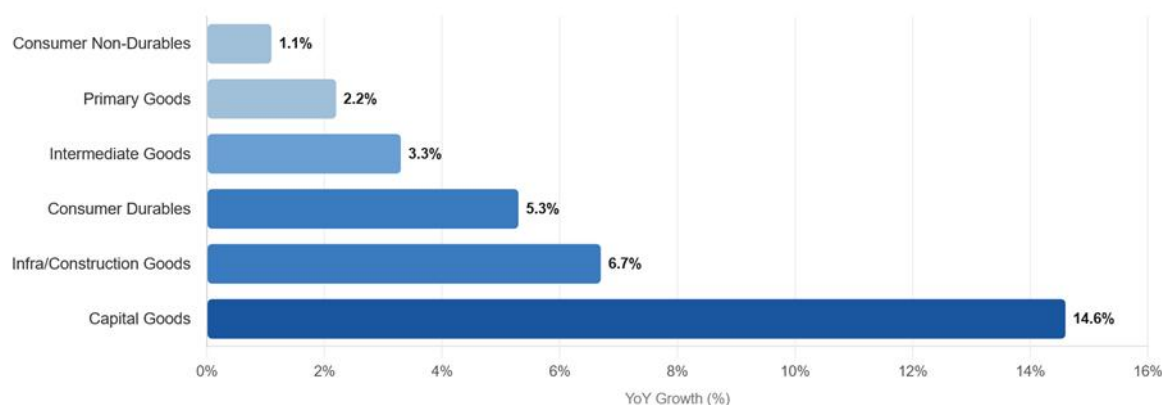
- A solid investment resulted in an impressive growth in Infrastructure/Construction Goods (+6.7%) and Consumer Durables (+5.3%). The standout performer is the Capital Goods sector, which registered +14.6% growth in March. This has been strongest in the last 6 months.
- The capital-intensive production path is quite visible as impressive growth is recorded in Machinery & Equipment (+11.2%) and Basic Metals (+8.6%). Further, transport equipment is driving manufacturing forward. Other Transport Equipment (ships,

railways, aircraft) grew +20.8% and Motor Vehicles +18.1% in March. Both categories posted 20%+ growth in February as well, confirming a sustained surge.

- However, the low growth in Consumer Non-durables (+1.1%) indicates weak consumption-driven production. As we noted, the capital goods/transport (+14 - 21%) sector is doing well, which is a result of strong investment-led production. There is a divergence between weak consumption-driven production and strong investment-led production.

#### USE-BASED IIP: MARCH 2026

YoY Growth (%) | Base Year: 2011-12=100 |



Source: MoSPI IIP Monthly Release, April 2026.

## Power Sector & Automobiles

- India's installed power generation capacity reached 520.51 GW by January 2026, following a record addition of 52,537 MW during FY2025-26. Renewable energy sources accounted for more than half of the newly added capacity. Solar surpassed 150 GW and wind exceeded 56 GW by March 2026.
- The automobile industry recorded robust growth during the first four months of 2026. Auto retail sales reached a record 2.61 million units in April 2026, up 12.94% year over year, despite price hikes implemented in January and February.

## Indian Economy: Rupee & Forex Reserves

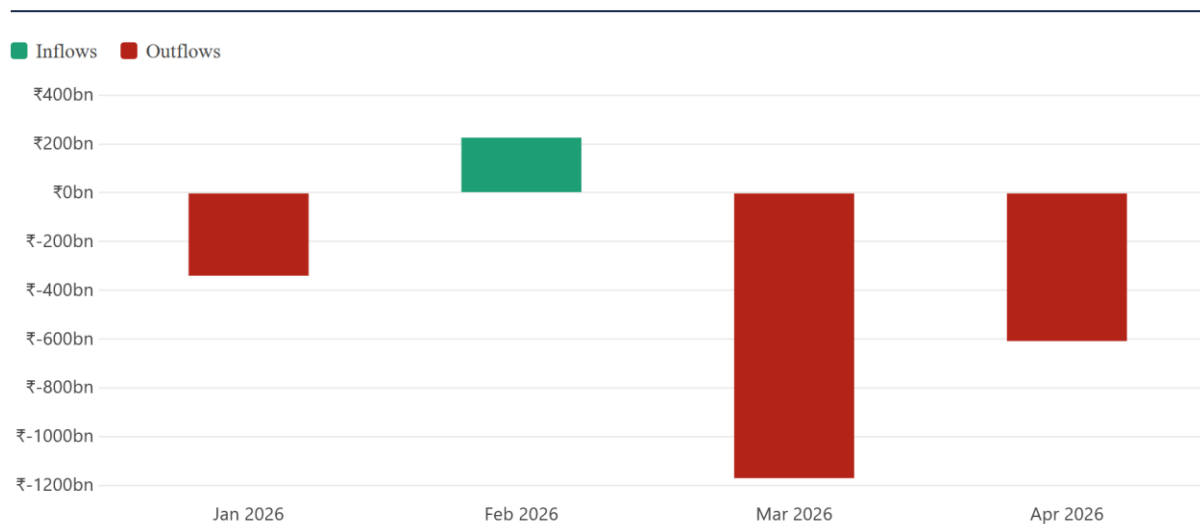
- The rupee is at an all-time low of Rs 95.33/USD as of April 30, having slumped 5.5% year-to-date. The depreciation reflects both higher energy import costs and broader "risk-off" sentiment, as global capital moves towards safe-haven assets, creating a complex policy challenge for the RBI.

- The rupee's decline is feeding an inflation loop: a cheaper rupee leads to more expensive crude oil, higher transport costs, and higher food prices, thereby exerting more CPI pressure.
- Forex reserves peaked at \$728.5 billion but have declined to \$698 billion as of April, down \$30.5 billion from the peak, covering around 11 months of imports. India's external buffers remain substantial: strong forex reserves, mainly rupee-denominated public debt, a healthy financial sector, and low pre-shock inflation.

## Indian Economy: Financial Markets

- Outflows by Foreign Portfolio Investors (FPIs) reached Rs 608.47 billion in April, while total 2026 outflows reached Rs 1.92 trillion in just four months, exceeding the Rs 1.66 trillion outflow recorded in the entire calendar year of 2025.

Monthly FPI flows, Jan–Apr 2026 (₹ billion)



- March saw a record Rs 1.17 trillion single-month outflow, while April was more contained due to partial stabilisation following the ceasefire in April.

## Policy Outlook & Strategic Priorities

- The Monetary Policy Committee (MPC) of the RBI voted on 8th April to keep the repo rate unchanged at 5.25% while holding the neutral stance. The GDP growth for FY27 was revised down from 7.4% to 6.9%, while the CPI projection is at 4.6%, up from 4.2% in February and nearly double the recorded 2.1% in FY26.

- The next MPC meeting in early June will be crucial. More CPI data and a clearer trajectory of oil prices will be available by then, making it a significant meeting for the repo rate decision. Sustained high oil prices, El Niño-driven food inflation, and rupee depreciation all complicate the path to easing.

## Director's Insights

### **The Sixteenth Finance Commission: Will It Address India's Urban Conundrum?**

**Prof Jyoti Chandiramani (Director, Symbiosis School of Economics)**

**Dr Amey Khare (Assistant Professor, Symbiosis School of Economics)**

**In this article, the authors show India's cities generate over 63% of GDP yet remain fiscally starved and governance-deficient. Three decades after the 74th Constitutional Amendment, Urban Local Bodies (ULBs) lack meaningful functional devolution, with own-source revenues stagnating at 0.86% of GDP. Urbanisation is simultaneously undercounted, and functionally urban populations remain outside planning frameworks. This article evaluates the Sixteenth Finance Commission's recommendations across three dimensions—measurement, governance, and fiscal architecture and assesses whether its unprecedented allocations constitute a structural correction or an incremental adjustment to India's deepening urban conundrum.**

## Introduction

India's urban story is one of profound paradox. Cities are the country's primary economic engines, generating approximately 63% of GDP and driving the bulk of formal employment and fiscal revenues (Ministry of Finance, 2026a) and yet they also exhibit chronic governance failure, fiscal starvation, and deteriorating liveability. It is within this paradox that the Sixteenth Finance Commission (16th FC), which tabled its report in Parliament on 1 February 2026, covering the award period 2026–27 to 2030–31, must be evaluated. This article examines the scale of India's urban conundrum across three dimensions: the measurement and magnitude of urbanisation; the governance and financial deficits of Urban Local Bodies (ULBs); and the extent to which the 16th FC's recommendations represent a meaningful structural correction. It concludes with targeted recommendations for the road ahead.

## 1. The Urban Conundrum:

India has the second-largest urban population globally. While the 2011 Census of India placed 31.1% of the population in urban areas (Census of India, 2011), the United Nations' World Urbanisation Prospects 2024 Revision estimates suggest that India's urban population is 37.6%, or approximately 555 million people, as of 2026 (World Bank, 2025; UNDESA, 2024). However, the United Nations Degree of Urbanisation (DEGURBA) methodology using satellite data from the European Commission's Global Human Settlement Layer (GHSL), estimated India's urbanisation rate at approximately 63% in 2015, nearly double the Census figure (Ministry of Finance, 2026a). The Janaagraha Foundation's Annual Survey of India's City-Systems (ASICS 2023) independently corroborated this, showing that applying Mexico's population threshold of 2,500 persons would place India's urbanisation at 65%, while Ghana's threshold of 5,000 would yield 47% (Janaagraha, 2023). India already lives and works in urban conditions that its own governance and planning frameworks do not recognise.

This measurement gap carries real costs. Large populations that are functionally urban living in census towns, peri-urban fringes, and unrecognised agglomerations are ineligible for urban scheme financing, urban planning coverage, and ULB-based service delivery. This has resulted in compromised liveability conditions for a large segment of our population. Further, the Registrar General of India (RGI) and Census Commissioner have proposed retaining the same 2011 definition of urban areas for Census 2027, in order to ensure comparability of urbanisation trends (Office of the Registrar General and Census Commissioner of India [ORGI], 2025). This decision has been widely critiqued: a definition that systematically misclassifies the majority of its functionally urban population actively misallocates public resources at scale.

The consequences of this misrecognition are visible in India's urban liveability. India ranks 176<sup>th</sup> out of 180 countries on the Environmental Performance Index 2024, with particularly low scores on air quality and ecosystem vitality (Block et al., 2024). Urban flooding in Mumbai (2021) and Bengaluru (2024), intensifying heat islands, and chronic water scarcity are no longer episodic events but structural features of urban life. Door-to-door waste collection has reached 98% of urban wards under the Swachh Bharat Mission-Urban 2.0, but segregation and processing capacities remain severely deficient (Ministry of Finance, 2026a). According to the World Bank, Indian cities will require an estimated USD 840 billion to USD 2.4 trillion by 2050 to address rapid urbanisation and build climate-resilient infrastructure (World Bank, 2023). Against this backdrop of profound urban need, the governance and financial architecture of ULBs is critically under-resourced.

## **2. Governance and Finance of Urban Local Bodies: The Structural Deficit**

More than three decades since the 74<sup>th</sup> Constitution Amendment Act (1992), formally recognised ULBs as the third tier of government and mandating that state governments devolve responsibility for 18 functions listed in the 12<sup>th</sup> Schedule -including urban planning, land-use regulation, public health and sanitation, water supply, solid waste management, slum improvement, and regulation of land and building use, this devolution remains deeply incomplete (Ahluwalia, 2017). The Praja Foundation's Urban Governance Index 2024 (UGI 2024), which surveyed 43 cities across all 28 states and 3 union territories, found that no state has devolved all 18 functions to city governments. Mumbai has the highest devolution in the country, with 11 of 18 functions, and Meghalaya, Uttar Pradesh, and Uttarakhand have only one function under independent city government control (Praja Foundation, 2024). Functions most commonly withheld by states include urban planning and land-use control, and public transport, precisely the functions most critical to managing rapid urban growth. Such widespread non-compliance across 13 states is confirmed by the Comptroller and Auditor General (CAG) as well (CAG, 2024). Ward Committees, mandated under Article 243S to decentralise governance to the neighbourhood level, remain non-existent or ceremonial in most states. Article 243ZE, which mandates Metropolitan Planning Committees (MPCs) in every metropolitan area with a population exceeding one million, has similarly remained unimplemented: only 9 of the 18 states with such metropolitan areas are constitutionally required to form MPCs, and even where constituted, they have not effectively discharged their planning and coordination mandate (Brookings India, 2024). The Pune Metropolitan Region Development Authority (PMRDA), for instance, functions as a state-controlled body rather than as a democratically accountable MPC, reflecting a pattern replicated across India's largest urban agglomerations.

The institutional weakness of ULBs is compounded by severe fiscal constraints. Municipal revenues across all ULBs stood at approximately 0.86% of GDP in FY 2020–21, a figure that has stagnated for over a decade and is exceptionally low by international standards (Janaagraha, 2025). Own Source Revenue (OSR), primarily property tax, user charges, and fees, remains deeply underdeveloped due to incomplete property records, widespread undervaluation, and political resistance to raising rates. The Praja Foundation (2024) found that only 12 of the 43 city governments surveyed hold independent authority to introduce new taxes or charges, and no city government receives a direct share of GST revenues. Janaagraha (2025) documents that the 45 cities with populations exceeding one million account for 74% of all own-source

revenues, while per capita OSR in the eight largest cities is roughly 7.6 times higher than in cities with populations below one lakh.

Staffing deficits further add to the fiscal crisis. The Praja UGI 2024 found significant vacancy rates in municipal corporations across India: nine cities, including Ahmedabad, Gurugram, Bhopal, and Kolkata, had more than 40% of sanctioned posts vacant, while Patna recorded the highest vacancy rate at 89% (Praja Foundation, 2024). The rotational posting of Indian Administrative Service officers as municipal commissioners, who often lack specialised urban expertise and serve short tenures, further dampens institutional capacity. As Janaagraha (2023) aptly characterises it, Municipal Corporations have become ‘glorified service providers, not the third tier of government as envisaged by the Constitution’.

### **3. The Sixteenth Finance Commission: An Unprecedented Shift, but Sufficient?**

#### **3.1 The Headline Allocation**

The 16<sup>th</sup> FC, chaired by Dr Arvind Panagariya (former Vice-Chairman, NITI Aayog), has recommended total grants of Rs 7,91,493 crore to rural and urban local bodies for the period 2026–27 to 2030–31, with a 60:40 split between rural and urban local bodies (Ministry of Finance, 2026b). The urban share of 45% of total local body grants is the highest in Finance Commission history, representing a 129% increase over allocations to ULBs under the 15<sup>th</sup> Finance Commission (Sixteenth Finance Commission, 2025).<sup>1</sup> Janaagraha has noted that this five-year urban allocation roughly equals the cumulative spending on all centrally sponsored urban schemes over the preceding 13 years combined (Business Standard, 2026). The Commission has divided grants into basic (80%) and performance (20%) components; 50% of the basic component is untied, giving cities flexibility to address locally identified needs (Ministry of Finance, 2026b).

#### **3.2 Performance Conditions and the Urbanisation Premium**

The tied 50% of the basic component is directed towards sanitation, solid waste management, and water management, all critical 12<sup>th</sup> Schedule functions. The performance component carries conditions on fiscal discipline and OSR, including a minimum property tax collection of Rs 1,200 per household. Entry-level eligibility conditions for all local body grants include

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<sup>1</sup> The allocation of the ULBs for the 15th FC (2021–26) stood at: ₹1,55,628 crore, and for the 16th FC (2026–31): ₹3,56,257 crore

i) the constitution of duly elected local bodies, ii) online publication of accounts, and iii) compliance with constitutional provisions for the regular formation of State Finance Commissions (Ministry of Finance, 2026b). However, the use of the term ‘urban local bodies’ rather than ‘urban areas’ risks excluding large populations in peri-urban and transitional settlements from fiscal transfers entirely, as elaborated in Down to Earth (2026).

The Commission has introduced a one-time Urbanisation Premium of Rs 10,000 crore to incentivise rural-to-urban transitions, fixed at Rs 2,000 per person based on the Census 2011 population. This premium is triggered upon states merging peri-urban villages into adjoining ULBs with an existing population of at least one lakh, and upon formulation of a Rural-to-Urban Transition Policy (Ministry of Finance, 2026b). This directly addresses the chronic census town governance gap. The Commission has also stipulated those states must ensure the Action Taken Report on SFC recommendations is laid before the state legislature within six months of SFC submission, addressing the perverse incentive for states to delay or suppress SFC outputs (Ministry of Finance, 2026b).

### **3.3 Challenges yet to be resolved**

Despite the unprecedented scale of the fiscal correction by the 16th FC, the ratio of ULB grants to GDP remains approximately 0.13% per year, stagnant relative to the growing urban population and its infrastructure demands (Business Standard, 2026). The Union Budget 2026–27, presented alongside the FC report, has simultaneously contracted several centrally sponsored urban schemes, signalling a structural shift from scheme-based to formula-based urban spending, which places substantially greater responsibility on state governments and municipalities who may lack the capacity to absorb and deploy funds effectively (Business Standard, 2026). The Urban Challenge Fund of Rs 1 lakh crore, announced in early 2025, requires cities to mobilise 50% of project costs through bonds or loans, remaining entirely unutilised in FY 2025–26, due to weak municipal creditworthiness. This highlights the gap between financial ambition and institutional reality (Business Standard, 2026).

Most critically, the 16<sup>th</sup> FC’s recommendations address finances but leave functions and functionaries largely untouched. No Finance Commission can compel states to transfer the undeveloped 12<sup>th</sup> Schedule functions, abolish duplicative parastatals, constitute Ward Committees, or professionalise urban cadres. These are political choices that rest with state governments, and the Commission’s design offers limited levers to incentivise them.

## **4. Recommendations**

### **4.1 Rethink Urban Definition**

The upcoming Census 2027 has not addressed the long-standing ‘urban definitional gap’. It is a federal design problem involving statistics, governance, and fiscal incentives. The workable path will require a sequenced and hybrid approach with clear ownership at the centre and operational levers at the states.

### **4.2 Operationalise the Three Fs: Functions, Finances, and Functionaries**

The enhanced financial transfers of the 16<sup>th</sup> FC will not transform urban governance unless states transfer the full complement of 12<sup>th</sup> Schedule functions to ULBs, particularly urban planning, land-use regulation, and public transport, which remain the most commonly withheld (Prajna Foundation, 2024). While the State governments have been incentivised, through performance-linked grant conditions, to dissolve or subordinate duplicative parastatals, constitute functional Ward Committees, and have strongly recommended that dedicated municipal cadres and continuous capacity-building programmes should be institutionalized across states. It is now time for the states to act on these recommendations. The Kerala People’s Planning model, which devolved 40% of the state’s plan budget alongside substantive functions, remains an instructive benchmark (Brookings India, 2024).

### **4.3 Strengthen Own Source Revenue**

The 16<sup>th</sup> FC’s conditionality on property tax collection is a step in the right direction and must be implemented with adequate central technical and financial support. The Janaagraha Municipal Premiere League experiment in Odisha, which produced a 37% increase in property tax collections through a structured enforcement competition across all 114 ULBs, demonstrates that OSR improvements are achievable through institutional innovation (Janaagraha, 2023). No city government in India currently receives a direct share of GST revenues; the 17<sup>th</sup> Finance Commission should examine a transformative mechanism for direct fiscal transfers to ULBs. This must balance autonomy, accountability and federal principles.

### **4.4 Revitalise Metropolitan Planning Committees**

All States in India should be mandated to set up MPCs, with minimum standards for planning, composition, and accountability, providing autonomy to the MPCs, wherein they are not acting as advisory committees operating in the shadow of state-controlled development authorities. Metropolitan governance structures, such as those in London and Toronto, should be

facilitated. The MPCs should illustrate that effective coordination at the regional scale results in genuine decision-making authority, financial resources, and democratic accountability (Brookings India, 2024).

#### **4.5 Embed Climate Resilience in Municipal Finance**

Given India's low ranking on environmental performance, future Finance Commission grants and urban scheme financing must explicitly incorporate allocations for nature-based solutions, stormwater management, urban heat mitigation, and air quality improvement. Gender-responsive urban planning, ensuring that women's safety, mobility, and livelihood concerns are embedded in municipal planning and budgeting, must be a concurrent priority.

### **Conclusion**

The Sixteenth Finance Commission has taken a significant step in acknowledging the scale of the urban fiscal deficit and correcting it. The doubling of grants to urban local bodies, the increase in the urban share of local body allocations to an historic high, the introduction of the Urbanisation Premium for peri-urban integration, and the recommended reform of State Finance Commissions collectively represent a meaningful structural shift. But financial transfers, however generous, cannot substitute for the institutional reforms, full devolution of functions, professionalisation of municipal cadres, constitutional strengthening of metropolitan governance, and systematic property tax reform that would make India's urban local bodies capable of absorbing and deploying those resources effectively.

The cities of Viksit Bharat 2047 will not be built through transfers alone. They require a shared resolve, at the Union, state, and local levels, to treat urban governance as critical economic infrastructure, and urban local bodies not as administrative appendages of state governments but as autonomous institutions of democratic self-governance. The 16<sup>th</sup> Finance Commission presents a significant opportunity to strengthen ULBs. Whether this proves transformative in resolving India's urban conundrum will depend not only on the Commission's design, but critically on the political will and institutional commitment across all three tiers of government.

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