

INDIA

FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: INDIAN RUPEE (INR)

POPULATION AND GEOGRAPHY

Area: 3 287 259 km²**Population:** 1 339 million inhabitants (2017), an increase of 1.2% per year (2010-2015)**Density:** 407 inhabitants / km²**Urban population:** 33.6% of national population (2017)**Urban population growth:** 2.4% annual (2017 vs 2016)**Capital city:** New Delhi (2.1% of national population)

ECONOMIC DATA

GDP: 9 453.7 billion (current PPP international dollars), i.e. 7 059 dollars per inhabitant (2017)**Real GDP growth:** 6.7 % (2017 vs 2016)**Unemployment rate:** 3.52 % (2017)**Foreign direct investment, net inflows (FDI):** 39 966 (BoP, current USD millions, 2017)**Gross Fixed Capital Formation (GFCF):** 28.5% of GDP (2017)**HDI:** 0.640 (medium), rank 130

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Indian Union Government governs the union of 29 states and seven Union Territories (UTs). It is a constitutionally democratic federal republic (*Bahraṭ*) with a parliamentary system of government. The 1950 constitution, amended several times, includes a list of fundamental rights and “directive principles” of state policy and defines the structure of the government.

At the national level, the President is the head of executive of the Union and is elected through indirect suffrage for a 5-year term by the elected members of the parliament and the elected members of the Legislative Assemblies of the states. The Prime Minister is appointed by the President and is the head of Government. The parliament of the Republic is composed of two chambers with the President of India acting as their head. The upper house is the Council of States (*Rajya Sabha*) and the lower house is the House of the People (*Lok Sabha*). The Council of States consists of 12 members nominated by the President and no more than 238 indirectly elected by members of legislative bodies of the federated entities for a term of six years. The number of members from a state depends on its population. The House of the People consists of no more than 545 members, including two members appointed by the President of India from the Anglo-Indian Community and 543 members directly elected by the citizens of India for five years on the basis of universal suffrage. The members of the House of the People represent parliamentary constituencies across the country.

States have their own legislative and executive branches, mirroring the structure of the federal government. Each state has its own legislative assembly (*Vidhan Sabha*). The executive power is vested in the state governor, who acts as the representative of the President of India. The governor is assisted and advised by a council of ministers led by a chief minister, who is the leader of the state assembly.

Union Territories are “federal territories” ruled directly by the Central Government and have special rights and status. They do not have their own legislature and are administered by a Lieutenant Governor who is appointed by the federal government and is the representative of the President of India. Among the seven Union Territories, there are however two territories with a special status and powers: Delhi and Puducherry (Pondicherry). These two territories closely resemble states and have an elected legislative assembly, executive council of ministers and carry out state-like functions. In addition, Delhi has been redefined as the National Capital Territory of Delhi (NCT) and incorporated into a larger area known as the National Capital Region (NCR).

Part IX and IXA of the Constitution refer to the “Local bodies” i.e. rural local bodies (*Panchayats*) in rural areas and urban local bodies (municipalities or ULBs) in urban areas. According to articles 243g and 243w of the Constitution, states devolve powers, authority and responsibility to their “local bodies”. Each state is free to develop its own local legislation, known as the “state municipal/municipal corporation act” for ULBs and the “*Panchayati Raj* legislation” for *Panchayats*. Therefore, local governments often vary from one state to another in terms of status, powers, responsibilities, funding mechanisms, fiscal powers (such as local tax-raising power) and, therefore, degree of decentralisation. Some states have a high level of decentralisation while others have only devolved few functions and spending assignments to the local level, limited to the provision of basic public services.

In 1992, following the 73rd and the 74th Constitutional Amendment Acts, municipal governments were granted statutory recognition as the third tier of government (for local governments in rural and urban areas). These two amendments also ensure protection to local government and provide a basis for the state legislatures to guide the state governments in the assignment of municipal responsibilities and governance. They contributed to strengthening functional responsibilities at the municipal level.

In recent years, several initiatives have been taken at national level to further the decentralisation process in India. These initiatives have contributed to strengthen local governments in India and aim at providing local urban bodies with substantial autonomy and legitimacy. For instance, the Jawaharlal Nehru National Urban Renewal Mission (JnNURM) is a federal government initiative designed to foster greater efficiency and transparency in the functioning of urban local governments. Set up in 2005, this national scheme was designed to simultaneously decentralise power to municipalities and promote urban renewal by improving urban infrastructure and expanding basic services in urban areas, including slums. The idea was that strengthening municipal government is the key to driving urban growth and alleviating poverty.

Other urban development initiatives have also been a key component of the decentralisation and development agenda in recent years. They support local governments on a national scale and include:

- the National Urban Livelihood Mission (NULM, an urban poverty alleviation scheme launched in 2013);
- the Swachh Bharat Mission (Clean India launched in 2014);

- the Pradhanmantri Awas Mission (PMAY, affordable housing programme for the urban poor launched in 2015);
- the Atal Mission for Rejuvenation and Urban Transportation (AMRUT in 2015);
- the Smart City Mission (urban renewal and retrofitting programme launched in 2016), which was created and being implemented by the Ministry for Housing and Urban Affairs (MoHUA).

These urban missions, spearheaded by the federal government of India in collaboration with the state governments of the respective cities, tend to promote a participatory approach, providing more flexibility to states and local governments to set local priorities.

The government is currently promoting a new federalism paradigm consisting of co-operative and competitive federalism. The idea is to shift from a top-down/planning approach to a bottom-up approach that promotes experimentation, benchmarking and the sharing of experience across states. Several examples of vertical co-ordination arrangements already exist: the Inter-State Council (ISC); the National Institution for Transforming India, also called NITI Aayog; and the Finance Commission of India (see below). The ISC, in particular, is specified in the Constitution as a platform for strengthening Centre-State and Inter-State relations. The NITI Aayog, which replaces the Planning Commission instituted in 1950, was established in 2015 to foster co-operative federalism.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	262 771 rural local bodies (<i>Panchayat</i>) and 4 657 urban local bodies (<i>Municipalities</i>)		29 States and 7 Union territories	
	Average municipal size: 5 010 inhabitants			
	267 428		36	267 464

OVERALL DESCRIPTION. India has a two-tier subnational government structure, based on a state level (states and Union Territories) and a local government level, comprising almost 268 000 entities.

STATES AND UNION TERRITORIES. A recent territorial reform in 2014 divided the Andhra Pradesh State into two states Telangana and Andhra Pradesh, thereby increasing the number of states to 29. The regional level is thus comprised of 36 units: 29 states and seven Union Territories. However, only two territories can be considered subnational governments. States have very diverse characteristics whether geographic, demographic, economic, social or cultural. Uttar Pradesh, the most populated state (with an estimated population of around 215 million in 2015, i.e. 17% of all India) is 335 times more populated than the smallest state (Sikkim, 640 000 inhabitants). Maharashtra and Bihar are the second- and third-most populous states with respectively around 119 million and 130 million inhabitants. In seven states, the urban population accounts for less than 20% of the total population while in six states it accounts for more than 40%. The 11 mountainous states in the north and northeast differ markedly from the rest and are therefore designated as “special category” states. Inequalities across states are high by international standards and have increased. In 2013, output per capita in the poorest state (Bihar) was just 13% the level of Delhi, one of the richest territories.

LOCAL LEVEL. Local government units are comprised of rural (*Panchayats*) and urban local bodies (ULBs). As of summer 2017, there were a total of 267 428 local government bodies across the country, of which 262 770 are rural and 4 657 urban municipalities.

The local government structure is complex and differs according to each state. In rural areas, the system of local self-government called *Panchayat* (*Panchayati Raj*) comprises three levels in almost all states: the village (*Gram Panchayat* which is the basic level), the Development Block at the intermediate level (*Mandal Parishad* or *Block Samiti* or *Panchayat Samiti*) and the District level (*Zila Panchayat*). The Panchayat system has existed for several centuries but was formalised in 1992 by the 73rd amendment to the Indian Constitution. The Panchayat system exists in almost all states (some have a two-tier or a single-tier system such as Nagaland, Meghalaya, Mizoram, Goa, etc.) and in all Union Territories except Delhi. They all have a council elected for a term of five years, elected directly by the villagers (*Gram Panchayat*) or indirectly (blocks and districts). In 2017, there were 255 466 gram panchayat, 6 672 intermediate governments and 632 districts.

In urban areas, local urban bodies are classified according to their size in three categories. They are designated municipal corporations in large metropolitan areas, i.e. population of more than 1 million inhabitants (*Nagar Nigam/Mahanagar Palika*), municipalities in urban areas comprising between 100 000 and 1 million (*Nagar Palika*), and city councils (*Nagar Panchayat/Nagar Parishad*) for smaller towns, i.e. areas in transition from rural to urban (population between 11 000 and 25 000 inhabitants). They are all sub-divided into wards. Ward committees are chaired by the local ward councillor. Councillors are elected in each ward for a term of five years but, in certain instances, members can be nominated. Mayors are elected directly or indirectly, depending on the state for either one or five years.

Metropolitan areas have highly fragmented municipal bodies with very limited co-ordination. According to the last census, there were 53 metropolitan areas of more than 1 million people, including 45 with a population ranging from 1–5 million, five with populations ranging between 5–10 million and three megacities (Delhi, Kolkata and Mumbai) with populations of greater than 10 million each. The 74th Amendment contains an important provision in relation to the establishment of Metropolitan Planning Committees (MPCs) within metropolitan areas. However, various approaches have been adopted in the establishment of MPCs within different states. In parallel, states have established “urban development authorities” to improve co-ordination at the metropolitan area level.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The separation of powers and responsibilities between the Union and states is laid out in Schedule VII of the Constitution. The constitution divides the powers of the federal and state governments into three “lists” or groups of competences: a union list (97 items including defence, foreign affairs, national transports, currency, etc.), a state list (66 items including public order, police, and administration of justice, public health, education, agriculture, local government, etc.) and a concurrent list on which both the governments can legislate (47 items including education and environment). The importance of concurrent powers explains why India’s national government is frequently referred to as the “central” government, illustrating the centralised nature of India’s federal structure and the power that the national government wields vis-à-vis the states.

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In India, the division of powers between sub-states is not, however, symmetric: the Indian Constitution makes special provisions for 12 states. The reason for these provisions was to meet the needs and aspirations of the least-developed areas of each state, to protect their culture and economic interests, to deal with local challenges and to protect their customary laws.

Responsibilities have been mostly devolved by the Constitution to state governments rather than to local governments. Local governments derive their powers and responsibilities from state-level statutes. As a result, they vary significantly across the country from one state to another with some local governments exercising very limited functions, while others have bigger remits. However, Schedule XII of the federal constitution provides a basis for the state legislatures to guide the state governments in the assignment of municipal responsibilities and governance. It outlines 18 functions that may be entrusted to the municipalities. These include water supply, construction and maintenance of public streets, lighting and watering of public streets, maintenance or support of public hospitals, civil registration. Functions vary according to the type of local government i.e. between ULBs and Pachayats and within each category (between municipal corporations, municipalities and city councils and between villages, blocks and districts).

Indian municipalities are increasingly turning to the private sector to fund infrastructure improvements and the delivery of basic services.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	STATES	MUNICIPAL LEVEL (GENERAL SCHEME)
1. General public services	General Public Administration; Civil status register; Oversight of Local administration, electoral register	Production of public administrative statistics; Registration of births and deaths
2. Public order and safety	Public Order; Police; Fire protection; Civil protection	Public safety including fire services
3. Economic affairs /transports	Agricultural Production; Industries and Minerals; Roads; Public transport; Urban roads; Ports; Airports; Local economic development; Tourism	Economic development planning; Roads and bridges (ULBs and districts); Public transport (ULBs); Regulation of slaughterhouses and tanneries
4. Environmental protection	Parks	Environmental protection; Promotion of ecological initiatives; Urban forestry
5. Housing and community amenities	Management of Land rights; Irrigation; Housing, town planning; Regional planning; Water and sanitation; District heating; Gas service	Sanitation and solid waste management; Urban and town planning; Regulations of land use and construction of buildings; Water supply; Urban forestry; Urban amenities (parks, green spaces); Burial and cremation facilities; Public amenities (street lighting, parking lots); Housing to low-income residents
6. Health	Primary care; Hospitals; Health protection	Primary and health protection (ULBs)
7. Recreation, culture & religion	Theatres; Museums; Libraries; Sports; Leisure activities; Religious facilities	Theatres; Museums; Libraries; Sports; Leisure activities; Religious facilities
8. Education	Pre-schools; Primary and secondary schools; Vocational and technical training; Higher education, adult education	Pre-schools (optional for ULBs, Districts and Blacks); Adult education (ULBs)
9. Social protection	Family welfare services; Welfare homes; Social security	Planning of social development; Protection of the disabled; Urban poverty alleviation; Slum improvement; Welfare homes (optional)

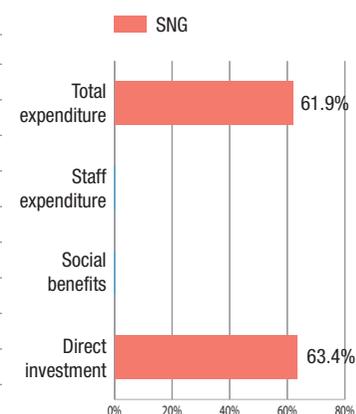
SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

Scope of fiscal data: the 29 States and the seven Union territories and their respective local government bodies (NB: the breakdown of the public finance data between the states and the local governments is not available).	Other	Availability of fiscal data: Low	Quality/reliability of fiscal data : Low
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GENERAL INTRODUCTION. States account for most SNG expenditure and revenue. However, states depend heavily on federal funding (grants or tax-sharing arrangements). Recent measures have given them more financial autonomy. Local governments have a relatively weak discretionary and decision-making power over revenues and expenditure. There is a lack of reliable and comparable data on local government finance. At national level, in fact, there is no distinction between local government and state finance. Local bodies rely on transfers from the central and state governments to meet their expenditure requirements.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE			% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
	SNG	State	Local	SNG	State	Local	SNG	State	Local	
Total expenditure	1 045			17.1%			100%			
Inc. current expenditure	869			14.2%			83.0%			
Staff expenditure										
Intermediate consumption										
Social expenditure										
Subsidies and current transfers										
Financial charges										
Others										
Incl. capital expenditure	177			2.9%			16.9%			
Capital transfers	9			0.1%			0.9%			
Direct investment (or GFCF)	167			2.7%			16.0%			



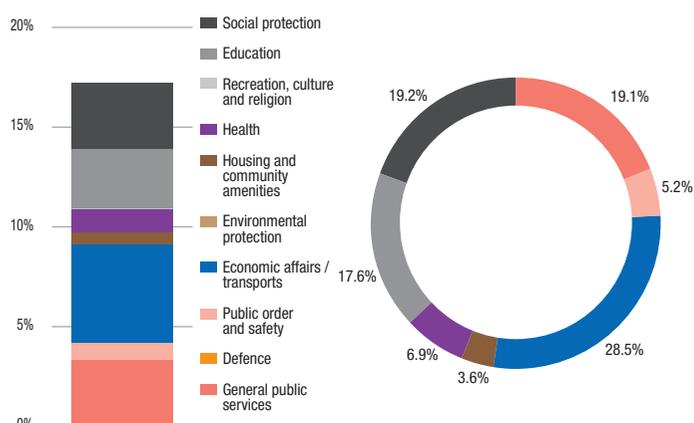
EXPENDITURE. In 2016, SNG expenditure in India accounted for 61.9% of public expenditure and 17.1% of GDP, well above the average OECD for federal countries (50.0% of public expenditure). As a share of GDP, Indian SNG expenditure is however below the OECD average for federal countries (19.2% of GDP in 2016). SNG expenditure is primarily comprised of current expenditure (83%) leaving a small share to total capital expenditure (17% of total SNG expenditure). According to CLGF, local government accounted for 16.3% of general government expenditure in 2015-2016.

DIRECT INVESTMENT. Public investment accounted for 4.3% of GDP in 2016, which is quite low by international standards, especially compared to others BRICs and emerging economies. States and municipalities play a major role in public investment, accounting for almost two-thirds of public investment, which is slightly higher than the OECD average for federal countries (62.3% in 2016), i.e. 2.7% of GDP and 16.0% of SNG expenditure.

Despite substantial public investment over the last 20 years, infrastructure supply remains poor, both in terms of quantity and quality, especially in urban areas. Less than 40% of the population has access to sanitation facilities and one-fifth is not yet connected to the electricity grid, with large variations across states and between urban and rural areas. In cities, there are huge needs in terms of housing. For instance, 17% of urban households live in slums on average. This figure climbs to 41% in Mumbai, according to the latest Census. Inequalities are also rampant in the areas of water provision, sanitation facilities and public transport. Co-ordination across sectors and levels of government is lacking, with overlapping powers between the central government and the states in many sectors. The Government of India has made infrastructure upgrades a top policy priority. It has developed several programmes to support subnational investment. PPPs are also strongly encouraged, in particular in the framework of the JnNURM. This programme was the Indian government's first initiative to foster PPPs in urban sectors such as solid waste, water supply, sewage, and urban transport. It was estimated by the former Planning Commission that between 13% and 33% of urban sector investments could potentially be made using the PPP model. The Twelfth Five Year Plan (2012–2017) also promoted the “4P” framework—People–Private–Public–Partnerships.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

2016	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT			SNG EXPENDITURE AS A % GDP	% OF TOTAL SNG EXPENDITURE
	SNG	State	Local	SNG	State	Local		
Total expenditure	17.1%			100%				
1. General public services	3.3%			19.1%				
2. Defence	0.0%			0,0%				
3. Security and public order	0.9%			5.2%				
4. Economic affairs / transports	4.9%			28.5%				
5. Environmental protection	0.0%			0,0%				
6. Housing and community amenities	0.6%			3.6%				
7. Health	1.2%			6.9%				
8. Recreation, culture and religion	0.0%			0,0%				
9. Education	3.0%			17.6%				
10. Social protection	3.3%			19.2%				

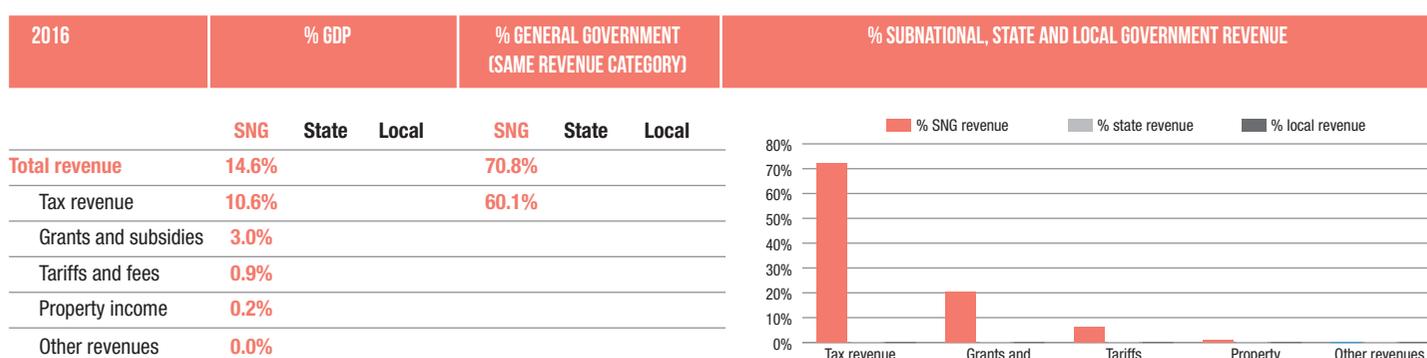


In 2016, SNGs allocated 28.5% of their total budget to economic affairs and transports, which stood at 67% of total public expenditure and 4.9% of GDP. Social protection was the second biggest economic function, representing 19.2% of total SNG expenditure, 66.1% of total public social protection expenditure and 3.3% of GDP. This confirms that SNGs play a major role in the provision of social services. The weight of social expenditure in SNG expenditure is above the average for OECD federal countries (14.8% of SNG expenditure). Despite a lower weight on the SNG budget, housing and community amenities, health and education (including culture due to the current classification) are mostly carried out by state and local governments, amounting respectively to 92.7%, 95.5% and 87.5% of total public spending in these areas.

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SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY



OVERALL DESCRIPTION. The Constitution contains complex arrangements relating to the distribution of fiscal powers and revenues between the federal and state governments. It recognises that the assignment of tax powers and expenditure functions creates imbalances between expenditure needs and the ability to raise revenue. Imbalances are both vertical (among different levels of government) and horizontal (within SNGs). Pursuant to the Constitution, a share of centrally-levied taxes is allocated to the states and the Consolidated Fund of India allocates grants to the states.

Tax sharing arrangements and allocation of grants among different states are determined by the Finance Commission of India, an independent quasi-judicial body enshrined in the constitution (article 280), which is appointed by the President of India every five years. The Finance Commission is also in charge of making recommendations regarding the measures needed to increase the Consolidated Fund of a State to supplement municipal and *Panchayats'* resources in the State. A finance commission - whose role is similar to that of Finance Commission of India - exists in each state to provide fiscal advice on state-local government relations.

The SNG financing system is currently changing, following the reform of the 2017 Goods and Service Tax (GST) reform and the recommendations of the Fourteenth Finance Commission (FFC - 2015-2020). The FFC has recommended to increase the percentage of national tax revenues allocated to states from 32% to 42% and improve the grants system to provide more fiscal autonomy and incentives to the states.

Tax revenues represented the bulk of SNG revenues (greater than two-thirds of total SNG revenues), which is well above the average for federal countries in the OECD (47.5%) while the share of grants is smaller. At local level, the opposite is true: municipalities and *Panchayats* depend mostly on federal and state grants (although data are missing).

TAX REVENUE. The Seventh Schedule of the Constitution is very detailed concerning the taxation powers of the Union and the states. Most of the broad-based and productive taxes have been assigned to the federal government such as the PIT or the CIT, but states can benefit from shares of these taxes. Several exclusive taxes are assigned to the states. The Constitution also authorises states to devolve the power to levy, collect and appropriate taxes to local authorities but it does not contain a separate list of taxes for local bodies.

States receive a share of all central government taxes excluding surcharges and earmarked taxes (so-called "divisible tax pool") in particular the personal income tax (PIT), the corporation tax (CIT), the wealth tax, union excise duties, union custom duties and the service tax. Total shared taxes accounted for 33% of SNG tax revenue in 2016, including 11% for the CIT and 8% for the PIT. Following the FFC recommendation, new criteria have been taken into consideration for tax distribution (population, demographic changes, area, forest cover, etc.).

State own-source taxes account for the lion's share of their tax revenue (67%). The general sales tax is the most important, representing 4.4% of GDP, 41.3% of SNG revenue and 30% of SNG total revenue. State taxes also include the state excise duties (7.8% of SNG tax revenue), stamp and registration fees (7.2% of SNG tax revenue), the motor vehicle tax, tax on electricity, tax on goods and passengers and the recurrent property tax. Some states levy a professional tax on individuals, which applies to business owners, individuals working in private companies and merchants. The implementation of a reform on taxation of goods and services will have a significant impact on states' tax revenue as most central and state taxes on goods and services will be merged as of July 2017 into one single national tax: the new GST.

At the local level, sources of tax revenue are relatively narrow compared to international benchmarks. The main local taxes are the recurrent taxes on immovable property and the professional tax (if states have devolved to them taxation powers over these taxes) as well as a luxury tax (entertainment, betting and gambling). The property tax is mainly levied by local authorities. The property tax represented 0.9% of total SNG tax revenues, 0.7% of SNG revenues and 0.1% of GDP which is very low (compared to 1.1% of GDP in the OECD). The municipal revenue base suffers from substantial inefficiencies and a low level of collection. Local governments have very limited autonomy to set the bases and rates and to enforce them since they often lack the appropriate workforce. States can decide to abolish them and some have done so.

GRANTS AND SUBSIDIES. To correct vertical and horizontal imbalances, the constitution provides for statutory fiscal transfers from the centre and the states. There are two types of government transfers: general purpose transfers and specific purpose grants. General purpose transfers are allocated by the Finance Commission to offset the fiscal shortfalls besetting lagging states so they can provide comparable levels of public services at comparable tax rates. They have a strong equalising impact.

Special-purpose grants are conditional grants allocated for various purposes by sectoral ministries. The objective is to ensure that certain worthwhile services are delivered to a minimum standard and to ensure that services with significant inter-state spillovers are carried out.

The FFC has recommended improving the system of central government transfers to the states by, notably, 1) reducing certain conditional grants (45 “plan transfers” or central sector schemes); 2) streamlining the “centrally sponsored schemes” (from 66 to 28, including the matching requirement from the states); and 3) allocating funds based on more objective and progressive criteria (fiscal capacity was given more weight in the formula). The federal government also wishes to move towards outcome-oriented transfers in all policy areas, a move monitored by NITI Aayog and the Ministry of Finance. Examples of schemes are the National Health Mission, the Universal Elementary Education Programme, and the Mahatma Gandhi National Rural Employment Guarantee. As a result of these reforms, the share of general-purpose transfers rose significantly from 55.5% to 71% of total transfers.

At the local level, local governments receive grants and subsidies from three main sources: local body grants (as per the recommendation made by the Indian Finance Commission), federal funds for implementation of sponsored schemes, and state funds.

OTHER REVENUES. SNGs collect other revenues in the form of property income (development charges, transferable development rights) and user charges and fees on a wide range of services. In 2016, tariffs and fees and property income amounted to 6.1% and 1.1% of total SNG revenues, respectively. They remain low by international standards (respectively 14.9% and 2.0% of SNG revenue in the OECD on average in 2016). User charges do not offset operating and maintenance costs of many services, particularly the provision of electricity- and water-related services. Non-tax revenues have been neglected as potential revenue sources in Indian cities and continue to have “untapped potential”, in particular in large agglomerations.

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt	1 306			21.3%			29.9%			100%		
Financial debt*	1 306			21.3%			35.0%			100%		

* Currency and deposits, loans and bonds

FISCAL RULES. At the national level, a Review Committee set up to evaluate the Fiscal Responsibility and Budget Management Act (FRBMA adopted in 2003 but suspended following the crisis) submitted its report to the finance minister on January 2017 with recommendations on the reinstatement of budget balance rules at the federal level and on “partnering the states”. It is currently being reviewed by the government of India. At the state level, the years following the introduction of the FRBMA, most state governments introduced fiscal responsibility laws that limited their deficits to 3% of gross state product (GSP). The 10th plan of the Planning Commission of India highlighted the need for systematic fiscal discipline at the level of the states. At the local level, budget rules are defined by the relevant state.

DEBT. According to the Constitution, states may borrow freely, without debt ceiling limits, unless they hold outstanding loans from (or guaranteed by) the central government. According to the 1914 Local Authorities Loans Act, municipal corporations may borrow with prior approval from their respective state governments. An amendment to the Income Act of 1961 also grants municipalities the right to issue tax-free bonds. Some municipal councils and corporates have also managed to raise finance (with their state government’s approval) both through taxable and tax-free bonds, with and without state guarantees. It is interesting to note that the federal government has taken the initiative to encourage ULBs to tap into financial markets. A state-level pooled finance development fund scheme (PFD) has been established by the Ministry of Urban Development to provide credit enhancement to ULBs wishing to access the bond market. ULBs are scrutinised through a mandatory rating system when the issue maturity is greater than 18 months. In 2017, 94 cities across 14 states have received credit ratings from agencies as part of their preparations for issuing municipal bonds.

In 2016, SNG non-consolidated debt consisted entirely of financial debt, of which 56.5% are loans (including market loans and loans from banks and other institutions), 17.4% are bonds (including special securities issued NSFF) and 26.1% currency and deposits (including ways and means of the Reserve Bank of India, reserve and provident funds). SNG total debt reached 29.9% of total public debt, slightly higher than the OECD average for federal countries (27.1% in 2016); yet, SNG debt stood at 21.3% of GDP, which was much lower than the OECD average for federal countries (31.3% in 2016).



Lead responsible: OECD
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Socio-economic indicators: World Bank // UNDP Human Development report // UN Desa // ILO // Ministry of Statistics and Programme implementation: Statistical yearbook 2018 of India.

Fiscal data: Ministry of Finance, Department of Economic Affairs, Economic Division (2016) Indian Public Finance Statistics 2015-2016 // Finance Commission of India (fincomindia.nic.in).

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